

Power and Stability: Promises and Perils of an Economically Strong China

**A Monograph
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Abstract

Power and Stability: Promises and Perils of an Economically Strong China, by SSA Kreg S. Stonestreet, Federal Bureau of Investigation, 107 pages.

In the first half of the twenty-first century, China represents perhaps the most critical and complex factor affecting the national security interests of the United States. China's rapidly rising economic and military power coupled with its increasing global activism present a wide variety of potential threats to the national security interests of the United States. In many respects, China's efforts appear focused on diluting American influence and power, and preventing the United States from interfering in China's affairs. United States national security policy and strategic planning formulation must appropriately address these concerns and possibilities, and make key decisions as to when and how the United States embraces China as a key economic ally or treats them as an adversary. Where does the United States draw those lines and when does it run the risk of it developing into a cold-war type relationship?

This monograph explores the question whether an economically strong China represents more of a threat or an opportunity for United States national security interests, suggesting that developing and supporting China's economic capacity presents less of a threat to United States national security interests than seeking to contain such growth. America's national security interests are best served by global stability, and an economically strong China, not an economically dominant one, provides the better opportunity for stability.

A rising China will present complex challenges for the United States, for Asia, and for the world. Containment of that power may not be either the possible or desired course of action; using that power as an opportunity being a potentially more productive option.

Table of Contents

Abstract.....	3
INTRODUCTION.....	5
THE RISE OF CHINA.....	7
CULTURAL IMPACTS.....	10
SUSTAINABILITY	17
IMPLICATIONS OF AN ECONOMICALLY STRONG CHINA	18
China's Strategic Priorities and Security Interests	19
Implications of Rising Powers	21
Key Differences Impacting U.S.-China Relations.....	29
Implications for United States Power and Influence	34
China's Expanding Global Role.....	40
Implications of China's Rise for the Asia-Pacific Region.....	43
Potential Threats Resulting from a Rising China	45
OPTIONS AND OPPORTUNITIES.....	54
China's Readiness for Global Leadership.....	55
Options for United States in Protecting National Security Interests from an Economically Strong China.....	57
Importance of Existing International System and Multilateral Institutions.....	66
Competition or Threat	72
CONCLUSION	80
Appendix A:	84
Sustainability of China's economic growth	84
BIBLIOGRAPHY	104

INTRODUCTION

In the first half of the twenty-first century, China represents perhaps the most critical and complex factor affecting the national security interests of the United States. Much has been written about China's dramatic economic growth over the past 20 years and considerable debate continues to take place concerning China's emerging superpower status and its grand strategy. However, there is little debate that China is a growing world power that at a minimum desires to be the dominant regional power in Asia. China's rapidly rising economic and military power coupled with its increasing global activism present a wide variety of potential threats to the national security interests of the United States. Of particular concern to the United States are China's traditional alliances with Iran, Pakistan, and North Korea; as well as China's ever increasing alliances with former Soviet Republics in Central Asia, countries in Latin America, in Africa, and other East, South and Southeast Asia countries. While much of Chinese foreign policy appears to remain focused on expanding China's economic growth, a significant portion appears strategic in design. In many respects, China's efforts appear focused on diluting American influence and power, and preventing the United States from interfering in China's affairs. China's involvement in weapons of mass destruction (WMD) proliferation with rogue states such as Iran and North Korea seemingly fall under the latter.

The fact that China poses a significant potential threat to U.S. national security interests is clear, but the threat is a sophisticated one, only a portion of which is represented by China's military capabilities. China's potential ability to significantly affect the United States and global economy, the global alliances it continues to develop, and its technological advances (at U.S. expense in many instances – no foreign country targets U.S. military technology more aggressively than China) provide the means to significantly affect the ability of the American military to act and achieve strategic objectives in many parts of the world, and present a host of concerns regarding space and cyberspace. At the same time, the United States' relationship with China presents unprecedented upside potential. United States national security policy and strategic planning formulation must appropriately address these concerns and possibilities, and make key decisions as to when and how the United States embraces China as a key

economic ally or treats them as an adversary. Where does the United States draw those lines and when does it run the risk of it developing into a cold-war type relationship? While the Middle East remains the region most likely to cause global destabilization, China presents a potentially greater threat to United States stabilization and global influence. China has the means to influence and affect American global interests and strategy more than any other country, and United States strategy related to China will be the key factor in determining the ability of the United States to achieve its national security and strategy objectives. At a time in history when American global influence may be in decline, global stabilization is of vital importance. American foreign and national security policy in regards to China will remain a critical factor in ensuring global stabilization.

The purpose of this monograph is to explore the question whether an economically strong China represents more of a threat or an opportunity for United States national security interests? As with any complex issue, there is no clear-cut answer, but the monograph will attempt to explore and develop the hypothesis that developing and supporting China's economic capacity presents less of a threat to United States national security interests than seeking to contain such growth. The strategy of the United States should focus on continuing to develop a mutually beneficial strong economic alliance with China and support China's economic growth, while allaying China fears that the United States seeks to contain such economic growth. An economically strong China offers the most favorable conditions for stability in Asia, and global stability should be the end goal for U.S. national security. However, as will be discussed in some detail, caution should be applied in attempting to draw broad conclusions from such a hypothesis. When it comes to China-U.S. relations and U.S. national security, complexity and exceptions dominate and the United States must remain willing to aggressively challenge and take an adversarial position with China in a number of areas.

The development of the above referenced hypothesis will be attempted utilizing the following methodology: The initial discussion will include a brief overview of China's dramatic economic growth over the past thirty years, followed by a brief overview regarding Chinese culture and the important perspective it provides in examining the implications of an economically strong China. In order to

comprehensively examine the implications of an economically strong China, it is helpful to look at the sustainability of its continued strong growth. This includes the potential internal challenges to that growth. That will lead into the discussion of the implications of an economically strong China. Efforts are made to provide likely responses to a number of questions and issues:

- What does economic strength potentially enable China to do;
- What kind of power and influence does it provide China, and how does China intend to utilize it;
- What are China's strategic goals and how will its economic strength impact them;
- Will an economically strong China continue to work within the existing global economic system or will it seek to change it;
- How will an economically strong China impact the United States and its global and regional power and influence;
- What challenges does it represent to U.S. national security interests involving nuclear, proliferation of weapons of mass destruction, traditional military, space, cyber, espionage and economic;
- How do these challenges differ from other significant threats to America's national security interests such as those associated with Iran, North Korea, Russia, and terrorism.

Understanding the nature of the challenges is just part of the equation; from there it is important to consider what options America has in addressing that growth and their potential implications. The final step is to explore what opportunities exist for the United States and China and how the United States can best pursue those conducive to its national security interests. That discussion encompasses the unique complexity of the U.S.-China relationship, and provides some recommendations on ways to promote upside potential of the relationship while mitigating the downside, including areas where the United States should work more closely with China and those where a more aggressive or adversarial position is warranted. From that point, it should be feasible to draw some reasonable conclusions as to whether an economically strong China represents more of a threat or an opportunity for U.S. national security interests.

THE RISE OF CHINA

The number of publications and communications which contain some variant of the theme "rise of China" could run the length and breadth of the Great Wall of China. A thesaurus could be worn out

trying to describe the “remarkable” growth of China’s economy over the past 30 years. Indeed, the growth has been impressive and it has, and will continue, to significantly impact the United States and the global community. How, and to what extent, it will impact U.S. national security interests is dependent on any number of variables. Can China’s economic growth continue at a similar pace as it has the past 30 years and for how long? What factors may impact that growth? How will China’s continued strong economic growth potentially impact the U.S.? Are there options available to the U.S. to contain that growth in various ways, and should it attempt to do so if it can? What are the other global factors which may impact that economic growth? What does the continued economic growth of China mean for China and its long-term strategic goals, and what are those goals? Will China work within the existing global economic system or will it seek to change the system for its purposes? These are some of the questions and variables which require further exploration in order to assess the impacts to U.S. national security interests.

Any analysis must begin with at least a brief overview of China’s dramatic economic growth since 1979 and where China stands economically at present. In the past 30 years, China’s economy has morphed from a centrally planned system basically closed to international trade to a more market-oriented economy, very open to international trade and with a growing private sector. During this time, China has been the world’s fastest-growing economy, expanding at an average pace of almost 10 percent annually. As a result, China is now the world’s third largest economy as measured by nominal Gross Domestic Product (GDP) of approximately \$4.4 trillion (behind the U.S. with approximate GDP of \$14.4 and Japan with approximate GDP of \$4.9 trillion). It is the second largest economy as measured by GDP derived from purchasing power parity (PPP) (which most consider more relevant for comparison since it takes into account the relative cost of living and inflation rates) with a GDP (PPP) just over half of that of the United States (\$7.9 trillion versus the \$14.2 trillion of the U.S.)¹ In 2009, China edged Germany to

¹ GDP data from The World Bank: World Development indicators database, 1 July 2009, Gross domestic product (2008), retrieved 2009-10-17. It should also be noted that the collective GDPs of the 27 European Union member

become the world's largest exporter.² Regarding U.S.-China economic ties, China is the largest supplier of goods to the American market, and the American market is second only to the European Union (EU) as a customer for Chinese exports. China represents the third largest export market for American goods. The United States trade deficit with China was \$268 billion in 2008.³ Finally, in September 2008, China surpassed Japan as the largest holder of U.S. Treasuries. The \$800 billion in U.S. Treasuries China holds consists of 23 percent of the total \$3.4 trillion outstanding. It also represents over a third of China's total \$2.3 trillion in foreign exchange reserves, the world's largest.⁴ The further implications and dynamics of this relationship will be examined in more detail in the sections to follow.

Clearly, China has rapidly become a major player in the global economy. How was this remarkable growth achieved? Among the keys to this growth has been the continued prioritization by the Chinese Communist Party's (CCP) on economic development and modernization, which began when Deng Xiaoping succeeded Mao Zedong following Mao's death in 1976. Chinese leaders have reduced the role of ideology in economic policy while embracing market forces, the opening of the economy to trade and foreign direct investment and high levels of domestic investment, and basically the existing global economic system. These are some of the key factors which have supported China's long-term growth.⁵ The results have included the largest reduction of poverty and one of the fastest increases in income levels ever. Impressive, certainly, and prospects for future growth and increases in standards of

countries would make the EU the world's largest economy were it a country at \$18.4 trillion (nominal GDP) and \$15.2 trillion (GDP derived from PPP).

² *Kansas City Star*, January 11, 2010, citing data from Chinese Customs Agency; CIA World Factbook, 2009 estimates for world export data ranked top exporters as China (\$1.2 trillion), Germany (\$1.17 trillion), and U.S. (\$1.1 trillion). Again, the EU would be the top exporter at \$1.95 trillion were it a country.

³ U.S. Department of State, Bureau of East Asian and Pacific Affairs, <http://www.state.gov/r/pa/ei/bgn/18902.htm>, accessed 12/16/2009. U.S. imports from China (\$340 billion) accounted for 16.1% of overall U.S. imports in 2008. U.S. exports to China in 2008 (\$71.5 billion) accounted for 5.5% of total U.S. exports.

⁴ Ibid.

⁵ *China's Rise: Challenges and Opportunities*, CSIS/Peterson Institute for International Economics, China Balance Sheet/Issue Briefs 2009.

living in China are promising. However, before crowning China as the heir apparent to the U.S. as the global economic leader and next superpower, a dash of perspective is helpful in understanding whence it came, where it actually is, and the potential obstacles to its long-term growth. Providing this perspective will be attempted in the analysis to follow.

CULTURAL IMPACTS

"Give me your tired, your poor, your huddled masses yearning to breathe free, the wretched refuse of your teeming shore. Send these, the homeless, tempest-tost to me. I lift my lamp beside the golden door"

--Emma Lazarus, *The New Colossus*

Perhaps as much as anything else, this phrase and the Statue of Liberty within which it is inscribed, symbolize the profound differences between America and China. America, a country in its mere infancy in comparison to an ancient civilization like China, represents a true melting pot of cultures from throughout the world.⁶ Arguably, no other country in history has more successfully assimilated such a diverse range of cultures and blended them into one nation. The process has not been without its struggles and failures (slavery, segregation, and discrimination have certainly stained the racial and ethnic tolerance of America over the years) and it forever remains a work in process, but what other country can claim to have achieved more with such a diverse mix of cultures, and how many can match the sense of nationalistic pride found in America? The diversity and multi-ethnicity of American culture has been a key to the economic, scientific, and military strength which have made it a hyperpower.⁷ From its inception, America has promised that all men are created equal and endowed with certain unalienable

⁶ U.S. Census Bureau's 2008 American Community Survey includes following data: there are nearly 38 million foreign born in the U.S. (12.5% of the total U.S. population), 40% of U.S. population growth comes from immigration, approximately 33% of total U.S. population are part of a racial or ethnic minority group. The U.S. accepts more legal immigrants as permanent residents than any other country in the world – 37.5 million in 2006 alone. More than 95 percent of Americans today descend from someone who crossed an ocean to get to America.

⁷ Amy Chua, *Day of Empire: How Hyperpowers Rise to Global Dominance—and why they fail* (New York: Doubleday, 2007), 234. Chua doubts, however, that neither the U.S. or any superpower today possesses the capability to hold and retain that power (what she refers to as the "glue") over the rest of the world, because there is simply too much diversity of cultures and the world is too large.

rights, to include life, liberty, and the pursuit of happiness. Imbued with the creative energy and pioneering spirit enabled from that foundation, the initial settlers and the multitudes of immigrants from every corner of the globe who followed built America from a colonial outpost into what is arguably the most powerful country in the history of the world in less than 200 years. Underlying the tremendous strength of America is a unique blend of diversity and strong nationalistic pride.⁸ Though the unabashed patriotism and headstrong nature so often exhibited by Americans can be an annoyance to those in other parts of the world, they have been, and remain, a source of strength.

The government “of the people, by the people, and for the people” is not always efficient or pretty, but it has worked for America. An authoritarian one-party government rule like that of China can obviously achieve efficiencies which an American style democracy with its many checks and balances cannot. The American way can be slow and cumbersome in achieving results, and the direction of the country will sometimes meander and seem to lack clear goals or policy; but in the end it is responsive to the will of the people. Ultimately, that is a recipe for stability. It does not necessarily lead to contentment, for the American people are rarely satisfied with the status quo and there are always elements pushing for change. The promise America holds that everyone’s voice can be heard and they can freely push for change is a key element in the allure America holds. French political thinker and historian Alexis de Tocqueville observed in his seminal work “Democracy in America” that he saw America as a society where hard work and money-making was the dominant ethic, where the common man enjoyed a level of dignity which was unprecedented. “With such an open society, layered with such opportunity, men of all sorts began working their way up in the world.” Such remains the promise of

⁸ For a different perspective on diversity and national unity see Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon & Schuster, 1996), 305-306. Huntington discusses concerns the Founding Fathers had with diversity and its potential to hinder national unity. It was for this reason they chose as the national motto, “e pluribus unum” (“out of many, one”). Later U.S. political leaders were also fearful of the dangers of racial, sectional, ethnic, economic, and cultural diversity (for good reason Huntington notes since that in large part led to the Civil War). Huntington argues that considerable danger exist for America in promoting diversity rather than the unity of the people.

America. It speaks of opportunity and people from all over the world have flocked to America's shores since its inception to seek that opportunity.

Contrast that with the culture and demographics of China. China is the oldest continuous major world civilization, with records dating back about 3,500 years.⁹ As the world's most populous country with over 1.3 billion people, China's population is approximately 4.35 times the size of the U.S population, the world's third most populous. Of that 1.3 billion, approximately 91.5% are Han Chinese, with most of the remaining population consisting of various Asian ethnic groups.¹⁰ While Chinese culture within China is quite diverse and varied, from a global perspective, China could hardly be considered diverse. Regarding its multiethnic population, China does have concentrations of minority populations in vast border regions (especially Xinjiang, Tibet, and Inner Mongolia), but these populations would not be considered to be assimilated into the general Chinese population, and are indeed a source of much angst for Chinese authorities.

Given the long and storied history of the Chinese civilization, its culture is complex and draws from a wide variety of experiences and influences. To provide an explanation of China's culture which would do justice to its unique and many aspects would obviously be far beyond the scope of this monograph. Instead, just a few brief comments are offered for some perspective. The Chinese people justly take great pride in their culture and consider it one of the world's great civilizations. Contemporary Chinese culture generally consists of three major elements – traditional culture, Communist ideology, and Western values.¹¹ Traditional Chinese culture has been strongly influenced by Confucianism and Taoism (or Daoism). Confucianism is the most influential thought that forms the foundation of Chinese cultural

⁹ U.S. Department of State, Bureau of East Asian and Pacific Affairs Background Note on China, www.state.gov/r/pa/ei/bgn, accessed December 16, 2009.

¹⁰ Ibid.

¹¹ Kenneth D. Johnson, *China's Strategic Culture: A Perspective for the United States* (Carlisle, PA: Strategic Studies Institute, U.S. Army War College, 2009), p. 3

tradition and still provides the basis for the norms of Chinese interpersonal behavior.¹² Confucianism favors harmony over conflict and defense over offense.¹³ Confucianism has dominated the thinking and administration of Chinese military thought and international relations since the Han Dynasty (206 BC-220 AD).¹⁴ Its influences are reflected in the writings of the revered Chinese military strategist Sun Tzu that it is preferable to win a war without resorting to the use of force.¹⁵ However, such influences do not necessarily dominate foreign policy and military actions in China. The Chinese military has frequently shown a preference to take the initiative, a tolerance for risk taking, and a propensity for striking first, examples being the Chinese offensive in Korea in 1950, the sudden attacks on Indian forces in 1962, and the pedagogical war against Vietnam in 1979.¹⁶

China's "century of humiliation" from approximately 1841 through the end of World War II, culminating in its brutal occupation by Japan, has had a strong impact on China's modern strategic culture. The deep sense of victimization and grievance associated with that history (much of it associated with domination by "imperial" Western powers) has been described as the Chinese spiritual equivalent of "liberty" in America.¹⁷ The lesson China took from this history was the danger of weak rule, and that a weak and divided China will be dominated by foreign countries and subject to substantial violence. The experience goes far in explaining China's excessive concern with maintaining stability at home, whatever the costs may be (in human rights or economic terms), and why it is hypersensitive to any actions or

¹² Ying Fan, *A Classification of Chinese Culture* (London, UK: Lincoln School of Management, 2000), p.6

¹³ Huiyun Feng, *Chinese Strategic Culture and Foreign Policy Decisionmaking: Confucianism, Leadership and War* (New York: Routledge, 2007), 21.

¹⁴ Kenneth D. Johnson, *China's Strategic Culture*, 3

¹⁵ Sun Tzu, *The Art of War*, trans. Ralph D. Sawyer (Boulder, CO: Westview Press, Inc., 1994), 177. Full translation: "For this reason attaining one hundred victories in one hundred battles is not the pinnacle of excellence. Subjugating the enemy's army without fighting is the true pinnacle of excellence."

¹⁶ Christopher P. Twomey, *Chinese Strategic Culture: Survey and Critique*, prepared for the Defense Threat Reduction Agency, Advanced Systems and Concepts Office, SAIC, October 31, 2006, 11-12

¹⁷ John A. Garver, *China and Iran: Ancient Partners in a Post-Imperial World* (Washington: University of Washington Press, 2006), 4

rhetoric it views as challenging its internal policies (such as the U.S. criticisms of its human rights abuses).¹⁸

The nationalist movement stemming from the Japanese invasion and desire for strong rule led to the establishment of the People's Republic of China (PRC) in 1949 and of Mao Zedong's totalitarian Chinese Communist Party (CCP). Over the years, the PRC has transitioned from that one-party totalitarian regime to what became a one-party authoritarian regime under Deng Xiaoping. Since the end of the Cold War, China has not engaged in significant efforts to advance communist dogma or ideology outside China, and ideology became secondary to China's economic development and advancing China's national interest. Further perspective regarding Chinese culture and its impact on foreign policy and security strategy can be gleaned from Deng's guidance set forth in the early 1990s: "Observe calmly; secure our position; cope with affairs calmly; hide our capabilities and bide our time; be good at maintaining a low profile; and never claim leadership."¹⁹ The central message of "taoguang yanghui" ("concealing one's capabilities and biding one's time") has been taken to mean build the economy and avoid ideological battles, and the economy will save the CCP. More recent guidance in the form of current PRC President Hu Jintao's "Harmonious World" ideology emphasizes diversity and equality in international relations as well as traditional Chinese preferences for "noninterference" and the

¹⁸ Twomey, *Chinese Strategic Culture*, 8; and see Thomas Kane, *China's Foundations: Guiding Principles of Chinese Foreign Policy*, Guoli Liu, ed., *Chinese Foreign Policy in Transition* (New York: Aldine De Gruyter, 2004), 102, for following excerpt from address given by General Li Jijun of the People's Liberation Army at the U.S. Army War College in 1997:

"Before 1949, when the People's Republic of China was established, more than 1000 treaties and agreements, most of which were unequal in their terms, were forced upon China by the Western Powers. As many as 1.8 million square kilometers were also taken away from Chinese territory. This was a period of humiliation that the Chinese can never forget. This is why the people of China show such strong emotions in matters concerning our national independence, unity, integrity of territory and sovereignty. This is also why the Chinese are so determined to safeguard them under any circumstances and at all costs."

¹⁹ U.S. Department of Defense, *Military Power of the People's Republic of China 2009, Annual Report to Congress* (Washington, D.C.: U.S. Department of Defense, 2009), 1

“democratization of international relations.”²⁰ Although it indicates an evolution in China’s foreign policy as China has continued to expand its global interests and influence, it likely has not completely superseded Deng’s guidance. It should be noted that China’s expressed and actual hesitancy to become involved in other nation’s affairs likely has more to do with it not wanting other nations interfering in its internal affairs than with any philosophical or ideological reasons. Finally, as will be discussed later, there has been a perceptible shift in Chinese culture toward one where the military is becoming more instrumental in influence and as an instrument of Chinese national power.

As Samuel Huntington sets out in his book, *The Clash of Civilizations and the Remaking of World Order*, the changing post-Cold War international environment highlighted the fundamental cultural differences between Asian and American civilizations, and it is these fundamental differences in society and culture Huntington believes are the sources of conflict between China and the U.S. He described the fundamental differences as involving the Confucian ethos in Asian societies which stress the values of authority, hierarchy, the subordination of individual rights and interests, importance of consensus, avoidance of confrontation, “saving face,” the supremacy of the state over society and of society over the individual, and the maximizing of long-term gains over long periods of time. He contrasts those with American beliefs of liberty, equality, democracy, individualism, the propensity to distrust government, oppose authority, promote checks and balances, encourage competition, sanctify human rights, forget the past, ignore the future, and focus on maximizing immediate gains.²¹ As a final comment on cultural differences between China and America, people of any nationality and ethnic group can, and have, become American citizens. It is exceedingly difficult to become a Chinese citizen if not of Chinese ancestry.

Most of the above is fairly obvious to even the most casual of observers, so what is the relevance in analyzing the implications of an economically strong China for U.S. national security interests?

²⁰ Ibid., 1

²¹ Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order*, 225

Culture is important in analyzing a nation's interests, propensities, capabilities and future behavior, as well as its potential impact on a global perspective. "A security community is likely to think and behave in ways that are influenced by what it has taught itself about itself and its relevant contexts. And that education rests primarily upon the interpretation of history and history's geography."²² Military strategists from Sun-Tzu to Carl von Clausewitz and through the present have well understood the importance of culture in war. Sun-Tzu's well-known maxim that one must know their enemy underlies the importance of cultural comprehension.²³ Clausewitz referred to war as "an act of force to compel our enemy to do our will," and the will as a product of moral factors.²⁴ Culture is perhaps the most important source of these moral factors.²⁵ While it is important to understand culture, it is equally important to realize its limitations in strategic planning and foreign policy development. "Strategic culture is the product of a centuries-long dialogue between a people and its history. It is not going to yield readily, painlessly, and comprehensively to a would-be revolutionary drive from the policymakers of the moment."²⁶ While there is a certain futility in one country trying to change the culture of another, culture can change over time, further frustrating attempts to predict future behavior from historical patterns and attributes. Caution should also be applied in assuming there is a monolithic culture for America and China which applies universally throughout each respective country. Both countries have very diverse and varied cultures which do not necessarily fit neatly into a particular cultural description or theory.

²² Colin Gray, *Out of the Wilderness: Prime Time for Strategic Culture*, prepared for Defense Threat Reduction Agency, Advanced Systems and Concepts Office, SAIC, National Institute for Public Policy, 2006, p. 7

²³ Sun-Tzu, p. 179. The full maxim: "Thus it is said that one who knows the enemy and knows himself will not be endangered in a hundred engagements. One who does not know the enemy but knows himself will sometimes be victorious, sometimes meet with defeat. One who knows neither the enemy nor himself will invariably be defeated in every engagement."

²⁴ Carl von Clausewitz, *On War*, Michael Howard and Peter Paret, trans. (1832; Princeton, NJ: Princeton University Press, 1976), 75, 184

²⁵ Gray, *Out of the Wilderness*, 13

²⁶ *Ibid.*, 19

While the cultures of China and America are vastly different, there is much each can learn from the other and some degree of changes each could and should consider in how they approach the other based on a better understanding of respective cultures. However, just as American society will not change and adopt Chinese culture, America should not expect, or pursue, the adoption of American culture and values in China -- a culture with centuries of tradition and pride. The key is for the American and Chinese peoples and governments to better understand each other's cultures, respect them, and try to take them into consideration in each other's foreign policy.

SUSTAINABILITY

Before beginning a discussion concerning the implications to the U.S. of an economically stronger China, it makes logical sense to first discuss the likelihood China's economy will continue to grow rapidly, and for how long. The level of economic growth experienced by China in the past 20-30 years is unprecedented in modern times, and it has become a global economic superpower. Popular opinion expects that growth to continue into the foreseeable future with many expecting China to eventually overtake the U.S. as the world's largest economy. That may well happen, and there is considerable evidence in support of those expectations. However, it is by no means a given the levels of economic growth by China can or will continue. There exist any number of factors, both internally in China and externally, which could affect such growth; and those factors do not include the unforeseeable events which could potentially have even larger impacts. It is also worth noting that China's economic growth began from extremely low levels of economic development and modernization, especially for a country the size of China. There was obviously considerable room for growth. China still refers to itself as the "world's largest developing country."²⁷ What China has achieved in this time is indeed remarkable. More importantly now is whether that type of growth is likely to continue.

²⁷ *China's Rise: Challenges and Opportunities*, CSIS/Peterson Institute for International Economics, China Balance Sheet/Issue Briefs 2009.

There is little doubt that China faces numerous significant challenges and obstacles to its continued economic development. In many respects, it is, as its leaders have acknowledged, a developing country with a long way to go. However, given the remarkable progress China has made in the past couple of decades together with the traditional patience and long-term perspective that characterize Chinese culture, it would be imprudent to bet against its potential. Achieving that potential will require China to make significant reforms along the way. Ultimately, perhaps the most important factor in determining the future of economic development of China will be the policies and practices the Chinese government adopts both internally and with regards to its engagement with the global community. A China genuinely committed to being a responsible member of the global economic order and which enacts consistent domestic policies while continuing to prioritize economic development will likely be a formidable economic power for many years to come. Whether China makes those choices is, of course, subject to considerable debate. A more detailed analysis of the sustainability of China's economic growth is set forth in Appendix A.

IMPLICATIONS OF AN ECONOMICALLY STRONG CHINA

Discerning a nation's long-term strategic goals is always problematic and fraught with uncertainty. There are far too many variables involved to expect any high degree of accuracy in predicting a nation's future course, but nonetheless it is important for the United States to better understand China's probable intentions. One thing that does appear clear is that China's economic development is a key, if not the key, to China's long-term strategic vision. From the overall perspective, China's leaders have indicated a long-term goal for China is to retain its historical status as a great power that controls its own fate. Achieving this goal from China's perspective likely requires a strong export-led and foreign-investment led manufacturing sector, the growth of industries such as high-technology products that add maximum value to the Chinese economy, and creating and maintaining sufficient levels of employment for the Chinese workforce in order to ensure social stability and the CCP's ability to retain

control. China's other economic policies are implemented in order to meet these primary goals.²⁸

Assuming an economically strong China, the key questions become what does economic strength enable China to do regionally and globally, and what are its intentions?

China's Strategic Priorities and Security Interests

Continued strong economic growth translates into power and influence for China. The power and influence derived from this economic growth impacts and enables all forms of national power to include military growth and capabilities, diplomatic, and information (communications and intelligence), in addition to economic power. The 2009 Report to Congress on the Military Power of the PRC identifies the following as the strategic priorities which have been adopted by China's leaders: perpetuating CCP rule, sustaining economic growth and development, maintaining domestic political stability, defending China's national sovereignty and territorial integrity, and securing China's status as a great power.²⁹ Each of these strategic priorities is highly dependent upon an economically strong China. "China's fundamental security interest is the survival and consolidation of the Chinese state;" meaning survival of the communist regime, consolidating control of "lost" and contested territory, and avoiding external conflicts which would entangle and impede its ability to become a great power.³⁰ Over the past 30 years, the CCP has strongly held to the belief that the key to the survival of the communist regime is strong economic development in order to modernize China, increase its regional and global influence and power, and raise the living standards.

China's "peaceful development" strategy consists of two key efforts: emphasizing to China's neighbors through its actions that it is a responsible and cooperative member of the international community, and improving relations with the key world powers. The first is a reassurance strategy to

²⁸ 2009 Report to Congress of the U.S.-China Economic and Security Review Commission, 56-57

²⁹ U.S. Department of Defense, *Military Power of the People's Republic of China 2009*, 2

³⁰ Tow, *Asia-Pacific Strategic Relations*, 18

calm the fears of its neighbors over China's rise; the second an attempt to prevent any hostile coalition of powerful nations from forming.³¹

As part of its massive economic reform efforts, China's leaders identified three stages of planned development for the first half of the twenty-first century: the first stage to take place from 2000 to 2010 would result in doubling of China's GDP (it more than tripled); the second stage from 2010 to 2020 would result in again doubling GDP and increase per capita GDP to approximately \$3,000; in the final stage from 2020 to 2050, China expects to achieve its goal of "peaceful development" by joining the middle rung of advanced nations as a prosperous, democratic, and modernized socialist country.³²

Divining China's intentions continues to be the subject of considerable debate. Its leaders appear tightly focused on first achieving this third level and addressing internal China issues before embarking upon any type of more aggressive, expansionist, or external reform. Until that time, it is doubtful China would seek to create significant international waves or tensions which might interfere with or detract from this immediate goal.³³ The critical question then becomes what China's intentions are once they have reached that goal. It is logical China will seek to use its power and influence at that point to create global conditions more suited to its perceived needs and interests. Over the longer term, some Chinese specialists with a "realist" perspective doubt that there could ever be true compatibility between a rising

³¹ Avery Goldstein, *Rising to the Challenge: China's Grand Strategy and International Security* (Stanford: Stanford University Press, 2005), 188ff

³² Zheng Bijian, "China's Peaceful Rise to Great Power Status," *Foreign Affairs*, September/October 2005, pp. 23-24. "democratic" in this context refers to gradual, incremental democratization with Chinese characteristics consisting of inner-CCP democracy, expansion of grass-roots political participation through village-level elections, and adjustment of central-local party relations. Chinese leaders have remained adamant that economic development must precede political reform.

³³ See Saunders, *China's Global Activism*, 1, for a discussion of the importance to China of a peaceful international environment, particularly in its region, as critical to its highest priority of building its economy. A peaceful international community provides China the time it needs to do so without its attention and resources being diverted elsewhere.

power such as China and a dominant, hegemonic power like the United States; friction and conflict are bound to result.³⁴

Implications of Rising Powers

The study of rising powers and the effects of related power transitions as contributors to war date back to Thucydides examination of the causes of the Peloponnesian War. The common argument has been that a redistribution of capabilities among great powers generates instability which often leads to war.³⁵ As China continues to rise, there will be significant economic and political conflicts with the United States. The reality is that whether or not a power transition will end in war may depend on particular circumstances external to the power transition.³⁶

Predictions as to the course of action an economically strong China will pursue tend to be based on one's theory of international relations. Under the realist theory of international relations, states are the key actors in world affairs and exist in perpetual anarchy. In order to ensure their security and survival, states will attempt to maximize their power. Accordingly, if one state sees another state increasing its power, it views that as a threat and seeks to increase its own power and/or ally with other states for its security.³⁷ To put it another way, security is based on power and power is required for survival.³⁸ Under the defensive realism theory espoused by Kenneth Waltz, states will act to maintain rather than upset the balance of power; they will seek power to maintain their position in the system. "Deterrence,

³⁴ Sutter, *China's Rise in Asia*, 277

³⁵ Robert S. Ross and Zhu Feng, "The Rise of China: Theoretical and Policy Perspectives," *China's Ascent: Power, Security, and the Future of International Politics*, (New York: Cornell University Press, 2008), 293

³⁶ Ibid., 295

³⁷ Kenneth N. Waltz, "The Emerging Structure of International Politics," *International Security*, 18 (Fall 1993), 44-79; John J. Mearsheimer, "Back to the Future: Instability in Europe After the Cold War, *International Security*, 15 (Summer 1990), 5-56; John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton & Company, 2001), p. 19; Huntington, *Clash of Civilizations*, 33; Stephen M. Walt, "International Relations: One World, Many Theories," *International Relations*, No. 112 (1998), p. 30.

³⁸ Mearsheimer, *Tragedy of Great Power Politics*, 19

containment, power alliances and balance of power politics are the hallmarks of realism.”³⁹ Instead of aligning with a would-be hegemon (‘bandwagoning’), states will join forces to “balance” it by building up their military forces and/or entering into alliances.⁴⁰ Waltz stressed that states should not try to obtain too much power because excessive strength may cause other states to join against them.⁴¹

John Mearsheimer proposed an offensive realism theory in which states tend to act aggressively, not because they want to or have a desire to dominate, but because they have to seek more power and become the hegemon in the system in order to maximize their chance of survival.⁴² Aggressive behavior means states will try to gain power at their rival’s expense and take advantage whenever they can as long as the benefits outweigh the risks.⁴³ Based on his theory, Mearsheimer has strongly argued China’s rise will not be peaceful; that it will be compelled for its security and survival needs to dominate Asia the way the United States dominates the western Hemisphere. He expects that China will “develop its own version of the Monroe Doctrine, directed at the United States;” and just as the United States made it clear that distant powers were not to meddle in the Western hemisphere, China will assert “that American interference in Asia is unacceptable.”⁴⁴ China will achieve this by achieving such power that no Asian

³⁹ Jason J. Blazeovic, “Defensive Realism in the Indian Ocean: Oil, Sea Lanes and the Security Dilemma,” *China Security*, vol. 5 No. 3, 2009, 60

⁴⁰ Christopher Layne, *The Peace of Illusions: American Grand Strategy from 1940 to the Present*, New York: Cornell University Press, 2006), 16

⁴¹ Waltz, “The Origins of War in Neorealist Theory,” in Robert I. Rothberg and Theodore K. Rabb, eds., *The Origin and Prevention of Major Wars* (Cambridge: Cambridge University Press, 1989), 39-52; Mearsheimer, *The Tragedy of Great Power Politics*, 20; The relevance of this advice can be traced back to Ancient Greece in the Fifth Century B.C. as documented by Thucydides in his history of the Peloponnesian War. In his documentation of the Melian dialogue between the Melians and the Athenians, the Melians tried to warn the Athenians concerning their aggressions for security purposes, that: “Will not your actions strengthen your existing opponents, and induce those who would otherwise never be your enemies to become so against their will?” Thucydides, *The History of the Peloponnesian War*, Richard Livingstone, ed. (London: Oxford University Press, 1943), 269

⁴² Mearsheimer, *Tragedy of Great Power Politics*, 21

⁴³ Ibid.

⁴⁴ Ibid., 401; also see Joshua Kurlantzick, “China’s Charm Offensive in Southeast Asia,” *Current History*, September 2006. Kurlantzick puts forth a similar argument that “China may want to shift influence away from the United States

state will have the means to threaten it. China's goal would not be to conquer other Asian countries, but to be able to dictate terms to others and ensure China can pursue its interests without interference.⁴⁵

According to Christopher Layne, the real difference between defensive realists and offensive realists is “not about whether great powers are ‘power maximizers’ or ‘security maximizers,’ but about how much power a state needs to be secure.”⁴⁶ In his book, *The Peace of Illusions*, Layne promotes the strategy he calls “offshore balancing,” in which the United States would engage in diplomacy to balance large states and regions against one another rather than dominating other states directly. Whereas Layne asserts the United States has aimed for and established extra regional hegemony in the world's three most important regions outside North America: Western Europe, East Asia, and the Persian Gulf; Mearsheimer claims the United States is only a regional hegemon in the Western hemisphere, and that it acts as an offshore balancer in Europe and East Asia.⁴⁷ Hegemony requires raw, hard power--militarily and economically. Economic dominance not only drives military power but is a source of power in its own right.⁴⁸ An economically strong China will over time likely encroach upon the military and economic dominance of the United States in East Asia. This represents the paradox of hegemonic stability theory. As a liberal hegemon, the United States facilitated an open international economic system which

to create its own sphere of influence, a kind of Chinese Monroe Doctrine for Southeast Asia where countries would subordinate their interests to China's, and would think twice about supporting the United States.”

⁴⁵ Ibid., 401; and see Huntington, *Clash of Civilizations*, 229. Huntington states China's ability to dictate to others would include expectations that other East Asian nations do the following: support China in conflicts with western powers over economics, human rights, proliferation, etc.; accept Chinese military predominance in the region and not challenge it via nuclear or conventional means; defer to Chinese leadership on regional issues; adopt trade and investment policies compatible with China's interests; and abstain from military alliances or anti-China coalitions with other powers.

⁴⁶ Layne, *The Peace of Illusions*, 17

⁴⁷ Layne, *The Peace of Illusions*, 3. Mearsheimer is further of the opinion that there cannot be a truly global hegemon due to the infeasibility of projecting military power across oceans, or at least across all oceans. At some point the military capabilities are spread too thin. Mearsheimer, *Tragedy of Great Power Politics*, 41

⁴⁸ Ibid., 4

promotes, and has enabled, the ability of other states to develop their own economic power.⁴⁹ The United States has in effect provided China the means and opportunity to close the comparative advantage the United States holds over China, an advantage shrinking by the day. This is a trend Mearsheimer believes the United States cannot allow to continue.⁵⁰

Layne's argument is that the United States would be better served by being an offshore balancer. Due in great part to its fortuitous geographic situation and unparalleled military capabilities, the United States has remained virtually immune from external threat at home, and so has never faced pressures to seek security through a hegemonic grand strategy. Choosing to do so anyway has made the United States less secure.⁵¹ Layne sees offshore balancing as the exit ramp for the United States from this perilous hegemonic grand strategy, and he strongly urges it be taken. For that strategy to succeed in Asia--with success measured by the fact neither China nor any other Asian nation emerges as a regional hegemon--would require a few strong Asian powers, or alliance of nations, to balance against China. They could do so with support from the United States, but support from afar and absent the current military presence in the region. As an offshore balancer, only in the event the local powers fail would the United States become involved. As Mearsheimer has noted, the United States assumed that burden on four separate occasions in the twentieth century: in preventing imperial Japan, Wilhelmine Germany, Nazi Germany, and the Soviet Union from gaining regional supremacy.⁵² As will be discussed in more detail hereinafter, a potential concern with the offshore balancing strategy would be the inability of the United States to ensure the security of the sea lines of communication (SLOCs) in the South China Sea and Indian Ocean. These SLOCs are vital to American economic interests and global trade. Can the United States afford to trust that security to others?

⁴⁹ Ibid., 152

⁵⁰ Mearsheimer, *Tragedy of Great Power Politics*, 402

⁵¹ Layne, *The Peace of Illusions*, 191

⁵² Mearsheimer, *Tragedy of Great Power Politics*, 41-42

Another prominent international relations theory--Liberal Institutionalism--focuses not on power, but on the belief that high levels of interdependence among states will reduce chances of conflict between them. A component of this theory is the belief in international institutions as a key means to promote this interdependency, and to allow for free economic exchange among states.⁵³ A more detailed discussion of the value and viability of international and multilateral institutions in the relationship between the United States and China is set forth in a later section.

Constructivism, yet another variant of international relations theory, basically claims that significant aspects of international relations are historically and socially contingent, rather than inevitable consequences of human nature or other essential characteristics of world politics. Core aspects of international relations are given their form by ongoing processes of social practice and interaction.⁵⁴

Though Constructivist in nature, eminent political scientist Samuel Huntington offers a different perspective concerning international relations in his book, "The Clash of Civilizations and the Remaking of World Order." Huntington key argument is that "civilizations" have replaced nations and ideologies as the driving force in global politics, and clashes among these civilizations are the greatest threat to world peace.⁵⁵ The best way to prevent conflict from developing from these clashes is an international order based on civilizations.⁵⁶ "In the post-Cold War world, the most important distinctions among peoples are not ideological, political, or economic. They are cultural."⁵⁷ People define themselves in terms of cultural traits, and identify with cultural groups. The critical groupings in today's world are the world's major civilizations: Western, African, Islamic, Sinic, Latin America, Orthodox (centered on Russia), Hindu, and

⁵³ Huntington, *Clash of Civilizations*, 16

⁵⁴ Alastair Iain Johnston, *Cultural Realism: Strategic Culture and Grand Strategy in Chinese History* (Princeton, NJ: Princeton University Press, 1995), 3; Alexander Wendt, *Social Theory of International Politics* (Cambridge: Cambridge University Press), 1

⁵⁵ Huntington, *Clash of Civilizations*, 13

⁵⁶ Ibid.

⁵⁷ Ibid., 21

Japanese.⁵⁸ The six major powers Henry Kissinger identified for the twenty-first century – the United States, Europe, China, Japan, Russia, and India – belong to five very different civilizations and cultures.⁵⁹ In addition, there are a number of important Islamic states which are influential in world affairs. East Asia alone contains societies belonging to six civilizations, and if Southeast Asia is added seven civilizations are represented.

Huntington asserts China has redefined its role in world affairs “to become the champion of Chinese culture, the core state civilization magnet toward which all other Chinese communities would orient themselves, and to resume its historical position as the hegemonic power in East Asia.”⁶⁰ In line with these goals, the Chinese government considers all people of Chinese descent, regardless of citizenship, to be members of the greater Chinese community and in some manner subject to their authority or influence.⁶¹ As is pointed out later in this paper, this has been seen in a number of espionage cases in the United States involving theft of trade or national security secrets for the PRC by persons of Chinese descent having no official affiliation with the Chinese government.

“If Chinese economic development continues, it could be the single most serious security issue American policymakers confront in the early twenty-first century,” argues Huntington. He adds that “Economic growth creates political instability within countries and between countries, altering the balance of power among countries and regions.”⁶² Asia’s economic development creates instability in a number of ways: like other states with strong economic growth, it enables Asian states to expand their military capabilities; it potentially increases the intensity of conflicts between Asian states and the West; and it increases China’s influence in the region and the chances it will reassert its traditional hegemony in

⁵⁸ Ibid., 21

⁵⁹ Ibid., 28

⁶⁰ Huntington, *Clash of Civilizations*, 168. As such, China views its role as all encompassing to include defining, advancing, advocating, preserving, and protecting Chinese culture.

⁶¹ Ibid., 169

⁶² Ibid., 218-232

East Asia.⁶³ The latter source of instability increases the pressures on other Asian states to either bandwagon or to balance and try to contain China's influence. History shows that every other major power has engaged in outward expansion, assertion and imperialism at the time or immediately following the years in which it went through rapid industrialization and economic growth.⁶⁴ China was the dominant power in East Asia for 2000 years prior to its century of humiliation and continues to acquire considerable economic and military power; is there any reason to expect China to be different?

There has been considerable criticism of Huntington's somewhat controversial theory. To begin with, it has been pointed out that empirical studies have not shown any particular increase in the frequency of intercivilizational conflicts in the post-Cold War world. The civilizations he identified have shown little unity within them and tend to comprise numerous internal conflicts. For example, the Muslim world remains fractured along numerous ethnic lines with Arabs, Persians, Turks, Pakistanis, Kurds, Albanians, Bosnians, Africans, and Indonesians all having much different world views.⁶⁵ There has traditionally been little unity or cohesion among what Huntington defined as the Sinic civilization. It is true recent years have seen increasing collaboration among Asian states, though this could be explained as much by increasing economic interdependence as it could by cultural affiliations.

Caution should be applied in relying upon a particular theory or model in attempting to predict future behavior or actions. Theories and models are perhaps more useful as means to understand or place in perspective past events than they are in predicting future actions or behaviors. "Theory—at least in international relations—is essentially retrospective. When something happens that does not fit the theory,

⁶³ Ibid., 218

⁶⁴ Ibid., 229; the major powers referred to would include the United States, Britain, France, Germany, Japan, and Soviet Union.

⁶⁵ Bruce Russett, John O'Neal and Michaelene Cox, "Clash of Civilizations, or Realism and Liberalism Déjà vu," *Journal of Peace Research* vol. 37, no. 5 (2000), accessed online January 30, 2010 at <http://jpr.sagepub.com/cgi/content/abstract/37/5/583>

it gets revised.”⁶⁶ While it is helpful to have that understanding and perspective concerning what has happened, the usefulness in using it as a cornerstone for strategic planning is debatable. Future circumstances will never be the same as they were in the past and the multitude of variables which exist are incapable of translation into a particular model or theory. “Discontinuity or nonlinearity is the norm rather than the exception in life as well as in politics, why it is so difficult to predict the future of international politics.”⁶⁷

Threats are as much about perceptions as they are about reality. Nations’ leaders frequently misperceive actions of other countries and assume actions taken are directed at them when they actually are not. During the India-Pakistan in 1971, the United States sent a carrier task force near the Bay of Bengal. India assumed the task force’s presence in the area was an implied threat against India that the United States would use force to prevent India from taking action against Pakistan. The “incident” further poisoned U.S.-India relations and was considered one of the justifications for India pursuing nuclear weapons. In actuality, the carrier task force was tracking a Soviet naval flotilla through the Indian Ocean and had nothing whatsoever to do with the India-Pakistan conflict or sending any messages.⁶⁸ It is just as easy for the United States to fall victim to false perceptions. The development of “blue” water naval forces and capabilities by India and China may be perceived by the United States, and have been to some extent, as a threat to its dominant naval power in the region. A more likely explanation suggests the increased capabilities are merely to preserve India and China’s respective abilities to flow oil and trade to their countries. China’s “string of pearls” facilities and India’s concern about China encircling of India with port accesses may be what is in fact driving both their military force modernizations. This defensive realism behavior continues to escalate tensions between them as each sees the others defensive actions to

⁶⁶ Zbigniew Brzezinski and John J. Mearsheimer, “Clash of the Titans,” *Foreign Policy*, 00157228, January/February 2005, Issue 146

⁶⁷ Malik, *Dragon on Terrorism*, 46

⁶⁸ Rodney W. Jones, “India’s Strategic Culture,” SAIC, October 31, 2006, 15 (prepared for Defense Threat Reduction Agency)

ensure their respective security as offensive in nature; which in turn spurs each to obtain ever increasing capabilities to counter the perceived offensive actions by the other.⁶⁹ It is a classic vicious cycle.

Key Differences Impacting U.S.-China Relations

The key differences impacting U.S.-China relations revolve around Taiwan, their respective leadership roles in Asia, CCP legitimacy, and United States world leadership. They can be categorized as security, political, and economic differences.⁷⁰ Security disputes include Taiwan, United States complaints over China's proliferation of WMD and China's large defense budget increases, United States missile defense programs, expanded U.S.-Japan security cooperation, NATO expansion, efforts to curb North Korea's nuclear weapons program, increased United States military deployments throughout China's periphery, and perceived efforts by the United States to break up China. Political concerns focus on powerful forces in both countries pushing harder line policies which would exacerbate differences between the nations. Economic issues center on trade imbalances between the two countries and restrictions on high-technology transfers. Whereas the United States sees the trade deficit as a threat to American jobs and economic well-being, China resents pressures from the United States for greater market opening and Chinese currency revaluation. In China's view, this would lead to serious unemployment and economic dislocation which in turn would undermine social and political stability in China. Regarding United States restrictions on high-technology transfers, China resents them as unfair trade restrictions while the United States imposes them for national security reasons.⁷¹

Chinese officials and opinion leaders continue to have sinister views of United States' intentions and what they view as its hegemonic tendencies.⁷² They believe China's growing power poses a threat to

⁶⁹ Jason J. Blazeovic, "Defensive Realism in the Indian Ocean: Oil, Sea Lanes and the Security Dilemma," 61

⁷⁰ Sutter, *China's Rise in Asia*, 26-27

⁷¹ Ibid., 27-28

⁷² Sutter, *China's Rise in Asia*, 12. Chinese leaders view the main obstacle to China's rise to be the U.S. and its allies with their particular complaints being the U.S. support for Taiwan, U.S. desire to remain the leading power in Asian and world affairs, and perceived U.S. attempts to promote change in China's political system. Chinese elites and its

the United States which must be countered by attempting to contain China. Similarly, there exist considerable anti-China concerns and rhetoric among various political and interest groups in the United States which also adds to the tensions between the two countries. In short, there is a high degree of mistrust in both countries which tends to always see the worst in the other.⁷³ The columnist Robert Kagan has claimed “the Chinese leadership views the world in much the same way Kaiser Wilhelm II did a century ago...Chinese leaders chafe at the constraints on them and worry that they must change the rules of the international system before the international system changes them.”⁷⁴ This highlights the necessity of convincing Chinese leaders the existing system does not in fact unduly impose constraints on China’s growth and influence and beats any feasible alternatives. Such would require the United States to treat China as more of an economic peer and encourage its involvement and input in key international institutions. It will also likely require some degree of reforms to the existing system, which are much needed in order to adapt to today’s global environment; an environment significantly changed from the post-World War II world in which the bulk of the international system was established.

This raises the question whether it is too soon to treat China as an economic peer when it has yet to reach that status. While it should not be the goal of the United States to make China an economic superpower and peer, as the global economic leader the United States perhaps has an obligation to help assimilate China into the global economic order. While treating China as a peer rather than a lesser rival seems more conducive to global stability, doing so is not without significant possibly negative policy implications for the United States. The most obvious being that it could merely accelerate China’s power and influence and China will use that against United States interests. Yet another example of why the U.S-China relationship is so complex and crucial for future United States national security interests. The

national education system and media network have conditioned Chinese opinion to think of China as a “long suffering target of depredations and pressures from outside powers, particularly the U.S.”

⁷³ Sutter, *China’s Rise in Asia*, 30; see also Kenneth Lieberthal, “The China-U.S. Relationship Goes Global,” *Current History*, September 2009, vol. 18, no. 719, p. 243; “A Wary Respect,” *The Economist*, October 24, 2009.

⁷⁴ Robert Kagan, “What China Knows That We Don’t,” *The Weekly Standard*, January 20, 1997; Nye, *The Paradox of American Power*, 18

political, military, economic, and cultural dominance of the West has long caused a certain degree of resentment among other cultures and states, leading to many an attempt to paint the West as the enemy and create broader alliances in opposition. Attempts to contain China's rise would likely only add to that resentment and opposition.

There are also distinct elements in the U.S.-China relationship which differ from past dominant power-rising power relationships, and which can help steer the two toward a path of cooperation rather than conflict. Whereas the former Soviet Union was more intent on expanding its ideology and influence as a means to counterbalance U.S. power and influence, China appears to have a much different strategic plan. It is a strategy with little to no ideological aspects, but heavily focused on enhancing and sustaining China's economic growth. It is through economic strength and prosperity that China believes it can achieve the requisite influence and power to counterbalance U.S. power and influence, and thereby prevent the U.S. from meddling in what it considers to be China's affairs. Another distinction between the U.S.-Soviet Union Cold War relationship and the existing world situation is that whereas the Soviet Union had as a primary goal to destroy the American capitalist system and way of life, China is highly dependent upon an economically strong United States. China just wants to prevent U.S economic strength from translating into global influence over China's affairs.

The potential threats posed by the situation in the Middle East and by China differ in almost every important way, but there is nonetheless considerable intertwinement between the two. The threat in the Middle East stems from an ideological war against Western culture and the American way of life (as the embodiment of Western culture). It will not be resolved to the mutual satisfaction of both sides. There is no middle ground for compromise or benefits to be realized. In line with Clausewitz theories on absolute war, Radical Islamic Fundamentalism will not stop until Western civilization ceases to exist – that is their end state and they have no interest in compromise. It is unlikely the United States will ever be able to negotiate or productively co-exist with the existing regime in Iran. Economic relationships with the West are of minimal interest. Consequently, there does not appear to be a significant upside potential to relationships with Iran or other government-controlled radical Islamic Fundamentalist

regimes. This is a night and day difference from the situation with China. While American and Chinese cultures differ as much as do American and Iranian cultures, there is far less ideological friction. More importantly, China and the United States share many common interests, have many mutual dependencies and need each other; so there exist tremendous upside potential for a highly cooperative relationship.

China's rise simply does not represent the same type of geopolitical threat to the United States that the Soviet Union did. In the opinion of some, even were China to end up dominating the Korean peninsula and a significant portion of Southeast Asia, it would not constitute a significant threat to the United States; at least as long as Japan remains outside the Chinese sphere of influence and allied with the United States, and the United States retains sufficient naval footholds in places like Singapore, the Philippines, or Indonesia.⁷⁵ It must be stressed again, however, that a solid U.S.-Japan alliance is the cornerstone of America's political-military position in Asia and one of two cornerstones of America's global forward defense posture (the other being the NATO alliance).⁷⁶

Some specialists believe China's primary long-term regional goal is to push the United States out of Asia and assert regional dominance. As a result, they predict increased friction with China.⁷⁷ Other specialists believe a more confident Chinese leadership approach to Asia and their embracing of economic interdependence and globalization represent an optimistic outlook for the region with Chinese

⁷⁵Robert J. Art, "The United States and the Rise of China: Implications for the Long Haul," 272-273

⁷⁶ Ibid., 279; also see "Japan's Love Bubbles for China," *The Economist*, January 3, 2010. There is reason for the United States to be concerned over its vital relationship with Japan. The newly elected Democratic Party of Japan was elected with rhetoric calling for rapprochement between Japan and China with a goal of regional integration, and a reassessment of the need for American military forces deployed in Japan. Though new Prime Minister Yukio Hatoyama has backed off of some the more strident anti-U.S. rhetoric, and there does not appear to any reason in the short term to believe Japan would desire to lose the protection provided by the United States military, there are reasons for Japan to desire closer relations with China, primarily economic. Despite the bitter ill-will which has historically permeated China-Japan relations, Japan faces an aging population, debilitating deflation, stagnant growth, and a national debt close to 200 percent of GDP. In short, Japan has ample incentive to try and tether itself to China's soaring economic growth.

⁷⁷ Michael McDevitt, "The China Factor in U.S. Defense Planning, in Jonathan Pollack, ed., *Strategic Surprise?* (Newport, R.I.: U.S. Naval War College, 2003), 149

leaders having accepted some benefits of the leadership role of the United States in world affairs.⁷⁸

According to Robert Sutter, a third group of specialists predict more of a middle ground in which China needs to maintain good relations with the United States in the near future to ensure its continued economic development and political stability. In the longer term, anti-United States tendencies among China's leadership and a desire to remove the United States presence from China's periphery will become factors in determining China's policy in the region.⁷⁹ Not surprisingly, the best U.S.-China relations seem to occur when both sides strive to mute differences and seek common ground, but China generally only does so when the United States applies firm and effective policies toward China. The difficulty lies in determining the difference between firm and effective and firm but too aggressive. The latter could well lead to a more assertive and aggressive Chinese stance in the region.⁸⁰

It is important to distinguish between a desire to assert regional dominance, or hegemony, and a desire to be recognized as a regional power. There is little doubt China desires to be recognized as a regional power, and it would serve little purpose for the United States to refuse to acknowledge that recognition. In fact, the United States would be best served by treating China as a regional power and encouraging its full participation and involvement as a regional leader. That is a far cry from encouraging or accommodating efforts by China to achieve regional dominance. There is also an important distinction between an economically strong China and an economically dominant China. While the former poses less threat to the United States and is arguably in its best interests, the latter is much more problematic.

While the precise nature of China's future strategic goals is incapable of precise prediction, it is logical to assume they will be more expansive than they are now. China will likely do what all great powers do: not simply react to its international environment, but instead act to shape that environment in

⁷⁸ Elaine Kurtenbach, "China Emerges as a Possible US Partner," *Associated Press*, October 21, 2003; Fu Ying, "China and Asia in New Period," *Foreign Affairs Journal*, September 2003, pp. 1-7; Joseph Kahn, "Hands Across the Pacific," *New York Times*, November 11, 2002

⁷⁹ Sutter, *China's Rise in Asia*, 11

⁸⁰ *Ibid.*, 84-86

ways that are conducive to its national interests.⁸¹ So China will bide its time and work within the existing international economic system until it feels it has the power and influence to change the system, if in fact it believes it needs to be changed. Can China predict with any accuracy what will be best for its interests down the road? Another view is that the existing system has enabled China's rapid growth so perhaps any changes it would seek to make would be fairly minor. The CCP's primary concern is retaining power and continued economic growth is central to their ability to maintain control. As long as the existing system supports and enables that growth, there would be little reason to seek significant changes to that system.

Implications for United States Power and Influence

China's strategic goals will necessarily be influenced by the existing global order and the American role therein. It is the absence of a central authority that results in the anarchy and propensity for conflict found under the realism theory of international relations. Some would argue that the United States has more or less provided a minimal but effective level of central authority in the post World War II world. America's role in the world is the functional equivalent of the world's government. True, the United States intends what it does globally to further its own interests, "above all the overriding interest in remaining secure," but the world in general benefits from a great many American international policies and actions and does so without bearing the costs or burdens.⁸² The United States is the closest thing the world has to an international 911 that countries can dial for protection or assistance. As John Ikenberry has noted, the United States has been not just a powerful state, it also built an international order that still

⁸¹ Robert J. Art, "The United States and the Rise of China: Implications for the Long Haul," Robert S. Ross and Zhu Feng, eds., *China's Ascent: Power, Security, and the Future of International Politics*, (New York: Cornell University Press, 2008), 263; see also Tow, *Asia-Pacific Strategic Relations*, 20; Michael D. Swaine, "China," in Zalmay Khalilzad, ed., *Strategic Appraisal 1996* (Santa Monica: RAND, 1996), 198

⁸² Michael Mandelbaum, *The Case for Goliath: How America Acts as the World's Government in the 21st Century*, (NY: Public Affairs, 2005), 219

exists, and which encompasses much of the world to include China.⁸³ This existing global order has shown a remarkable capacity to accommodate rising powers.⁸⁴ Absent the role of the United States in the world, anarchy would exist in international politics as there is no central authority capable of making and enforcing rules of behavior on states.⁸⁵ Of course, “realists” would say anarchy already exists in international politics, but it is probably safe to say it would be much worse absent the role the United States has played.

China’s impressive economic development has likely benefited significantly from American primacy and from the effects of globalization. The former provided the peaceful international environment and the international public goods which enabled China to focus on an export-led strategy of rapid economic development. The latter facilitated China’s integration into regional and international economies.⁸⁶ While China’s leaders undoubtedly remain cognizant of the importance attached to America’s role in establishing and maintaining the system which has enabled China’s rise, and consistent with Deng Xiaoping’s maxims they want to avoid confrontation and bide their time in order to build up China’s comprehensive national power, Chinese leaders increasingly view the United States and its allies as the main obstacle to China’s rise. Specific complaints have focused on United States support for Taiwan, America’s desire to remain the regional and global hegemon, and perceived attempts by the United States to promote change in China’s political system (particularly U.S. complaints concerning China’s human rights record).⁸⁷

As former Deputy Secretary of State Robert Zoellick stated in 2005, China has been a major beneficiary of the existing international system over the last 25 years and it needs to take more

⁸³ G. John Ikenberry, “The Rise of China and the Future of the West,” *Foreign Affairs* (January/February 2009), 31

⁸⁴ Ibid.

⁸⁵ Christopher Layne, *The Peace of Illusions: American Grand Strategy from 1940 to the Present*, (Ithaca, NY: Cornell University, 2006), 210

⁸⁶ Sutter, *China’s Rise in Asia*, 4

⁸⁷ Ibid., 11-12

responsibility for sustaining this system and become a “responsible stakeholder.”⁸⁸ In order to become a “responsible stakeholder,” Zoellick suggested China should among other things, work to strengthen the international system, not tolerate rampant theft of intellectual property rights and counterfeiting, address massive trade deficits, end its currency manipulation, increase transparency in its military modernization efforts, avoid involvement with troublesome states without regard to consequences, pursue responsible energy security rather than trying to “lock up” global energy supplies, and work more closely with the international community in preventing the proliferation of WMD, particularly with regard to Iran and North Korea. Robert Sutter describes China as less a “responsible” power which fully embraces international norms in security and political affairs, and more a “responsive” power which seeks to preserve long-standing interests in changing circumstances.⁸⁹

China has increasingly made attempts to appear a more responsible power. During the 1990s, China’s leadership took a number of steps intended to enhance its relations with its Asian neighbors and assure them of its peaceful development intentions. More efforts were made to meet international norms and requirements such as those involving market access, intellectual property rights (IPR), China became a member of the World Trade Organization (WTO), it joined the treaty on non-proliferation of nuclear weapons and agreed to halt nuclear tests, it agreed to abide by the terms of the Missile Technology Control Regime, and to help the United States reach an agreement with North Korea over its nuclear weapons development program.⁹⁰ Much of this was part of China’s “charm offensive” as it began trying to broaden its influence regionally. At the same time, however, China’s leaders remained acutely sensitive to criticisms of its authoritarian rule and human rights record, and they continued to transfer

⁸⁸ Deputy Secretary of State Robert B. Zoellick, “Whither China: From Membership to Responsibility?” remarks to National Committee on U.S.-China Relations, New York City, September 21, 2005, accessed online on January 18, 2010, at www.state.gov/s/d/rem/53682.htm.

⁸⁹ Sutter, *China’s Rise in Asia*, 16

⁹⁰ *Ibid.*, 6

sensitive military technology or dual use equipment to Pakistan, Iran, and other potential flash points.⁹¹

Chinese officials also resorted to threats or demonstrations of military force against those they believed were challenging China's territorial or nationalistic claims in areas such as Taiwan, the South China Sea, and Hong Kong.⁹²

As critical as Chinese leaders were of American policies in the 1990s and despite their practice of exaggerating the threats posed by the United States, following the events of September 11, 2001 (9/11), they soon realized there was little they could do to counter America's influence in the near term. Chinese leaders were somewhat shocked by the overpowering military might and global influence demonstrated by the United States after 9/11 and realized China was much farther from being able to challenge the United States than previously thought.⁹³ China did not wish to be in a position of confronting United States power alone and sought to avoid it unless its core interests, mainly involving Taiwan, were significantly challenged by the United States.⁹⁴ Perhaps no other major power was as impacted by the geopolitical shifts associated with the United States War on Terrorism (WOT) as was China.⁹⁵ The initial effects of the WOT eroded China's foreign policy gains, the increased American military presence all around China's periphery affected its long-term strategic goals, China's Asian rivals India and Japan developed closer ties to the United States and enhanced roles in Asia, Russia developed closer ties to and increased cooperation with the United States, it more or less sidelined the Shanghai Cooperation Organization, and it marginalized China's image as a great Asian power.⁹⁶

⁹¹ Ibid., 45

⁹² Ibid., 7

⁹³ Mohan Malik, "Dragon on Terrorism: Assessing China's Tactical Gains and Strategic Losses Post-September 11," (Carlyle, PA: Strategic Studies Institute, U.S. Army War College, 2002), 13

⁹⁴ Sutter, *China's Rise in Asia*, 7

⁹⁵ Malik, "Dragon on Terrorism," 1

⁹⁶ Ibid.

China's leaders provided tentative cooperation with the United States following 9/11: supporting the right of the United States to take appropriate action in Afghanistan and backing United Nations Resolution 1373 (though only after trying to tie its backing to reduced U.S. arms sales to Taiwan until realizing that would not succeed); sending a team of counterterrorism experts to Washington to share intelligence; and agreeing to allow the Federal Bureau of Investigation (FBI) to open a Legal Attache office in Beijing – a request which had theretofore not been acted upon for over eighteen months.⁹⁷ Not surprisingly, though, China's cooperation appeared to be premised more upon pragmatic considerations than a desire to cooperate in the war on terror. Once they determined resistance was likely futile, China's leaders felt they had little choice but to cooperate and at try to garner some measure of goodwill. They hoped their cooperation would translate into assistance in preventing radicalization of its Uighur population in Xinjiang province. Finally, China was convinced by the Pakistani Inter-Services Intelligence that the United States would get bogged down in Afghanistan and that would lead to opportunities to extract concessions in exchange for China's support.⁹⁸ The quick and total collapse of the Taliban in Afghanistan took everyone by surprise, from Pakistan, Middle Eastern countries, China, India, and Russia. It caused major reconsideration to China's strategy as it realized the United States was more powerful than previously thought, and growing stronger.⁹⁹

Chinese officials further determined that the United States led WOT was leading to a number of significant negative impacts to China's interests: the growing threat of weapons of mass destruction (WMD) terrorism had hardened the stance of the United States over Chinese proliferation; the refusal by the United States of China's attempts to equate the Uighur's independence movement in Xinjiang province with terrorism; the United States was emerging stronger and more powerful from the WOT; the United States military expansion and presence encompassing China's periphery in Central, South, and

⁹⁷ Ibid., 11

⁹⁸ M. Erikson, "Chinese Strategic Miscalculation?" *Asia Times Online*, December 5, 2001.

⁹⁹ Malik, "Dragon on Terrorism," 13

Southeastern Asia was perceived by China as part of a strategy to encircle and contain China; perceived increasing unilateralist tendencies by the United States and the power to do as it pleased; and development of closer United States ties with China rivals India and Japan.¹⁰⁰ Furthermore, China was particularly disturbed with President Bush's characterization of North Korea, Iraq, and Iran as an "Axis of Evil" in his January 2002 State of the Union address. All three had a strong China connection including "shopping at China's WMD store."¹⁰¹

According to Robert Sutter's extensive consultations with Chinese officials and specialists in 2003-2004, the Chinese government recognized that the United States by far was Asia's leading and dominant power and was likely to remain so for the foreseeable future despite its preoccupation in the Middle East and other parts of the globe.¹⁰² Despite some setbacks associated with disagreements over the invasion of Iraq, government leaders on both sides of the Pacific continue to value America's security commitment and military presence in Asia. Clear majorities felt their interests would suffer were the United States no longer the dominant world power.¹⁰³ At that time, Chinese officials were seeking to avoid confrontation with the United States. The question now is whether the confidence and rising respect China has gained from its weathering of the global economic crisis has altered that perspective and encouraged China to become more assertive and confrontational. Chinese officials are, however, well aware of the negative record of Germany's rise before World War I and Japan's before World War II, and have no intentions of repeating their mistakes.¹⁰⁴

A key aspect of China's policy has been to avoid confrontation with the United States, but the events of 9/11 and the WOT highlighted a few key reasons: China remained well aware it needs the

¹⁰⁰ A.L. Friedberg, "Terror Aside, U.S. and China Remain Far Apart," *Wall Street Journal*, February 20, 2002, p.1

¹⁰¹ Malik, "Dragon on Terrorism, 31

¹⁰² Sutter, *China's Rise in Asia*, 88

¹⁰³ Ibid., 90; see also David C. Kang, *China Rising: Peace, Power, and Order in East Asia*, (New York: Columbia University Press, 2007), 3

¹⁰⁴ Sutter, *China's Rise in Asia*, 88

United States for economic and technological progress, the ability of the United States to quickly build a formidable coalition in the WOT, China's military capabilities were far from presenting a legitimate challenge to the U.S. military, and it took note that the administration of George W. Bush "showed a U.S. resolve, not seen in decades, to use the unprecedented levels of U.S. power in order to punish enemies."¹⁰⁵ As China's confidence in its economic strength and resulting influence continues to grow, it may consider its dependence upon America for economic and technological progress to become less and less vital and view the Obama administration as less willing to use American power abroad. That could result in a China more willing to challenge the United States, not militarily, but in any number of other ways. However, China recognizes it needs a peaceful, stable international environment for decades to come in order to focus on its economic development and many internal issues. Those factors point toward a China which will continue to strive to avoid confrontation with the United States unless its core interests are directly challenged by the United States.

With the possible exception of the immediate post-World War II period, the United States likely stands at the peak of its power when power is measured in terms of hard economic and military assets. The United States economy is expected to continue to grow and America will remain the most powerful military nation in the world for years to come, but its economic and military advantage relative to the world's other great powers will in all probability diminish over the next several decades.¹⁰⁶ China and other developing world powers will inevitably gain at least some ground on the United States.

China's Expanding Global Role

So what accounts for China's increased activism in global affairs? Cultural aspects cannot be overlooked in this regard. A factor in Chinese foreign policy remains the expectation China will sit at the

¹⁰⁵ Ibid., 79

¹⁰⁶ Robert J. Art, "The United States and the Rise of China: Implications for the Long Haul," Robert S. Ross and Zhu Feng, eds., *China's Ascent: Power, Security, and the Future of International Politics*, (New York: Cornell University Press, 2008), 260

peak of a hierarchical set of relationships within Asia as it did during the Ming and Qing Dynasties.¹⁰⁷

The relative ease with which China has handled the global economic crisis has encouraged China's new sense of place in Asia and the world; that the process of China reclaiming its status as a major regional leader is much further along than even China expected. As previously noted, for 2000 years China was the preeminent power in East Asia, and its desire to reclaim that status and end once and for all the century of humiliation and subordination to the West and Japan should not be underestimated. In fact, as some have noted, the "rise of China" is somewhat a misnomer; China views it more as its re-emergence.¹⁰⁸ As China's confidence grows along with its new sense of place, its attitude regarding the global economic order continues to evolve along with its increased capability to influence global events.¹⁰⁹

Consistent with its new sense of place, China's increased activism in global affairs appears to be very much tied to China's economic development: such as securing inputs for its economy; protecting against a possible containment strategy by the United States; expanding Chinese political influence; and pursuing Chinese commercial interests.¹¹⁰ For example, China's expanding activity in Africa is driven by the need to secure resource access to oil, gas and other minerals, and to develop additional markets for Chinese goods. China's insatiable demand for energy resources has led it to develop close relations with questionable and repressive regimes such as those in Iran, Sudan, Angola, and Burma.¹¹¹ One advantage China continues to use to its advantage is its willingness to provide aid and investment in most countries without any preconditions tied to the projects. This obviates policy of the United States and other countries in seeking to isolate repressive regimes and put pressure on their leaders to implement reforms.

¹⁰⁷ Twomey, *Chinese Strategic Culture: Survey and Critique*, 9

¹⁰⁸ Joseph S. Nye, "China's Re-emergence and the Future of the Asia-Pacific," Guoli Liu, ed., *Chinese Foreign Policy in Transition* (New York: Walter de Gruyter, Inc., 2004), 337

¹⁰⁹ Bergsten, *China's Rise: Challenges and Opportunities*, 13

¹¹⁰ Saunders, *China's Global Activism*, 1

¹¹¹ Ibid.

All is not necessarily golden with their efforts, however. A backlash is beginning to develop in some of these regions from expanded China activity as Chinese goods displace local products, the Chinese commercial and labor presence leads to friction with local workers, and heightened expectations for Chinese investment and development assistance are not fulfilled.¹¹² In addition to its increasing presence in Africa, China has significantly expanded its influence in Latin America, Central and Southeast Asia, and the Middle East since 2001; taking advantage of opportunities created by the U.S. focus on terrorism and the military conflicts in Iraq and Afghanistan, the unpopularity of U.S. policies in the Middle East, and unclear commitment by the United States to these regions.¹¹³

Adding to its new sense of place, China has rediscovered its place in Central Asia and continues to develop pragmatic channels to achieve its interests. China's priority is maintaining stability along its borders so it can focus on higher priority matters elsewhere. China's long-term policy in Central Asia is "one of strategic denial: act to deny the rise of elements that will challenge China's internal security, deny the use of Central Asia by the United States to contain China, and deny a Russian monopoly of influence along its border." Regional cooperation is only a goal if it fits into China's national interests.¹¹⁴ Even though China-Russia relations have improved and each has used their partnership to attempt to counter growing American influence in the region, in the end each believes their respective relations with the United States are more important than the bilateral relationship with each other.¹¹⁵

One result of China's increased global activism is a growing perception in the West that China is becoming more aggressive and willing to use its increasing power. A number of its Asian neighbors,

¹¹² Ibid., 2; China's surging trade with African nations was in excess of \$100 billion in 2008 as it continues to try and secure oil, gas, and other key resources for its resource-intensive economy. Estimates for total loans, investment and aid donations run close to \$50 billion. Most Chinese companies investing in Africa use primarily Chinese workers, have directors linked to China's military and security forces, and contacts with China's state-backed industries and companies. "China's Business Dealings in Africa Growing," *The Kansas City Star*, October 25, 2009

¹¹³ Ibid.

¹¹⁴ Bates Gill and Matthew Oresman, *China's New Journey to the West: China's Emergence in Central Asia and Implications for U.S. Interests* (Washington, D.C.: Center for Strategic and International Studies, 2003), 44

¹¹⁵ Ibid., 11

including Japan and Vietnam, are also becoming more concerned about a more assertive China in disputes most often involving undersea oil and gas.¹¹⁶ Europe and the EU are also increasingly pessimistic about China's willingness to embrace multilateralism and be a responsible member of the existing global economic system, views which are becoming increasingly convergent with those of many in the United States. These views appear to be trending toward clashes with China over trade barriers and currency manipulation which will lead to protectionism. This is not likely to be in anyone's best interests.¹¹⁷ It will be interesting to see what steps China's leaders take in 2010 in relation to its currency. In 2009 they provided three reasons for holding it stable against the dollar: falling exports, weak GDP growth, and negative inflation. Heading into 2010, China is experiencing double-digit growth in both GDP and exports, and inflation is rapidly rising.¹¹⁸

Implications of China's Rise for the Asia-Pacific Region

Despite the existence of some tensions, in general China's growing strength appears to be causing limited concern among its Asian neighbors. Since 1979 and the beginning of China's reemergence, East Asia has perhaps been as stable and peaceful as at any time since 1841.¹¹⁹ Though a number of Asian nations may remain somewhat wary of China's intentions, most welcome an economically strong China and view it as supporting stability in the region and beneficial to their own economic well-being. With the possible exception of Taiwan and North Korea, Asian nations simply have no reason to fear China from an aggression standpoint; though some may occasionally have concerns with Chinese heavy-handedness on various issues. For the most part, Asian nations identify with China and share many common interests. In the view of some experts, it is identity and interests (Constructivism), not power,

¹¹⁶ "Choppy Waters: China's Assertiveness at Sea," *The Economist*, January 16, 2010, 41

¹¹⁷ "Charlemagne: Europe and an Inscrutable China," *The Economist*, January 16, 2010, 52

¹¹⁸ "Central Heating: China's Economy," *The Economist*, January 16, 2010, 70.

¹¹⁹ Kang, *China Rising: Peace, Power, and Order in East Asia*, 3

which are the key variables in determining threat and stability. It is for those reasons that East Asian nations have accommodated China's rise rather than trying to balance against it.¹²⁰

Furthermore, most Asian nations do not view the United States as attempting to balance China, and they do not perceive a desire for the United States to do so.¹²¹ Others are of the opinion that it is the American military presence in the region and its vast capabilities which allow East Asian states to avoid needing to balance against China; that should China become overly aggressive the United States will step in and deal with it. That, in effect, represents the ideal situation for East Asian nations, allowing them to curry favor with China and enjoy the fruits of a positive relationship while knowing someone else will take care of the problem if their confidence in China's good intentions is ultimately misplaced. A number of officials of East Asian nations have scoffed at this notion, saying there is no reason to believe the United States would be there to defend them against hostile Chinese action, especially with American priorities seemingly placed elsewhere, and the United States military presence has nothing to do with how they choose to interact with China.¹²² To put it another way, China will always be their neighbor, the United States presence and interest in Asia comes and goes.

The Asian region is more complex than many predictions account for. Japan has taken steps to improve relations with China, but remains wary of its intentions and is unlikely to bandwagon with China. The wounds of the 1930s still run deep, and China and Japan do not share any semblance of a

¹²⁰ Ibid., 9

¹²¹ Ibid., 185, 189, 195. Though the U.S. has its share of suspicions regarding China and takes steps to hedge against them in a multitude of ways including military capabilities (the 2006 National Security Strategy of the U.S. makes reference to a strategy of encouraging China to make the right strategic choices for its people, but hedging against other possibilities), the deep economic ties with China and East Asia have led to a predominant U.S. policy of engagement with China, not active balancing (unless one considers the hub-and-spokes system of bilateral U.S. alliances in Asia to be a form of balancing or containing China, as China sometimes views them). Many of the countries part of these alliances are increasingly unwilling to have their alliance with Washington viewed as directed against Beijing, even though they continue to value them as a hedging strategy. David M. Lampton, *The Three Faces of Chinese Power: Might, Money, and Minds*, (Berkeley, CA: University of California Press, 2008), 271

¹²² Ibid., 192

common vision regarding Japan's proper place in Asia and the world.¹²³ India also remains at odds with China over many issues and has increasingly strong relations with the United States, much to China's consternation. Russian and Chinese mutual interests (primarily a common opposition to the present U.S.-dominated unipolar world) appear to be secondary to their respective relationships with the West, and both rely much more on access to Western markets in goods and finance than to each other.¹²⁴ A CSIS study, "China's use of soft power in developing regions," found that China's substantial advances in Southeast Asia since the 1990s have been among continental countries of less concern to the United States. In the areas of United States focus, maritime Southeast Asia, there appears little chance of a Chinese sphere of influence at the expense of the United States. The Singaporean ambassador to the United States advised the study group that ASEAN's and Asia's economic success is tied to the United States: "No other country, not even China, India, Japan, and South Korea combined, has the capacity to replace the U.S."¹²⁵

Potential Threats Resulting from a Rising China

In perhaps a test of its growing confidence and sense of power in countering U.S. influence in the region, China recently announced an unusually broad series of retaliatory measures in response to the announcement of the latest arms sales to Taiwan by the United States, to include curtailing of military exchanges and threatening to sanction American companies that supply the weapons systems for the arms sales. Though it is often difficult to distinguish between belligerent rhetoric from China's leaders

¹²³ Nye, *The Paradox of American Power*, 24

¹²⁴ Robert Sutter, "Assessing China's Rise and U.S. Leadership in Asia: Growing Maturity and Balance, February 2, 2009, <http://asianstudies.georgetown.edu/64644.html>, accessed online 11/29/2009.

¹²⁵ Robert Sutter and Chin-Hao Huong, "China-Southeast Asia Relations: Economic Concerns Begin to Hit Home," *Comparative Connections*, January 2009, http://asianstudies.georgetown.edu/files/qchina_seasia.pdf, accessed online on 01/09/2010. Other studies concluding Asian nations prefer a strong U.S. presence in the region and its stabilizing effect to uncertainties posed by China's rise include: Evelyn Goh, "Strategic Asia 2008-09;" "Pacific Currents," (CA: Rand Corporation, 2008)

intended more to appease the masses from genuine intentions, this seems to indicate an increasing willingness by China to use its growing economic power as a diplomatic tool.¹²⁶

China's growing confidence in its economic power is also tied to its rapid military modernization.¹²⁷ All economic activity depends on a fairly predictable security environment, and that requires military prowess and shrewd diplomacy.¹²⁸ While China is under no illusions its military will possess the capabilities to take on the American military anytime in the foreseeable future, it is rapidly modernizing across the whole of its armed forces. Of particular concern are Chinese investments and growing capabilities in cyber and anti-satellite warfare, anti-air and anti-ship weaponry, submarines, and ballistic missiles.¹²⁹ China's rapidly increasing military modernization may not provide China the power to take what it wants in the near future, but it increasingly provides China capabilities to potentially deny:

¹²⁶ *Kansas City Star*, January 31, 2010, A15; China's leaders often resort to rhetoric in voicing displeasure with U.S. policy and actions as more a token disapproval than any attempt to change them. For example, China's leaders were well aware the U.S. intended to follow through with the arms sale, as it has been every time the U.S. has done so under the treaty it has with Taiwan. Typically, threats and retaliatory measures mentioned in such rhetoric are never implemented or followed through, the Chinese just want to publically voice their displeasure and hope it provides them some leverage in other areas.

¹²⁷ The PLA's budget more than doubled from 2000 to 2008 from \$27.9 billion to \$60.1 billion (according to China's reported numbers, which the Pentagon believes to be considerably underreported). U.S. Department of Defense, *Military Power of the People's Republic of China 2009, Annual Report to Congress*, p. VII. Though China's defense budget is expected to be close to \$100 billion in 2010, it remains dwarfed by the 2009 U.S. defense budget of nearly \$600 billion, "Overkill," *The Economist*, October 24, 2009.

¹²⁸ Walter A. McDougall, *Promised Land, Crusader State: The American Encounter with the World Since 1776* (New York: Houghton Mifflin Company, 1997), 216

¹²⁹ Robert M. Gates, Submitted Statement to the Senate Armed Services Committee, January 27, 2009, U.S. Department of Defense, www.defenselink.mil/speeches/speech.aspx?speechid=1337, accessed February 2, 2009. In his testimony on addressing the "China Threat," Gates noted "China is modernizing across the whole of its armed forces. The areas of greatest concern are Chinese investments and growing capabilities in cyber- and anti-satellite warfare, anti-air and anti-ship weaponry, submarines, and ballistic missiles. Modernization in these areas could threaten America's primary means of projecting power and helping allies in the Pacific: our bases, air, and sea assets, and the networks that support them." China's test of an antisatellite (ASAT) weapon in January 2007 demonstrated that it can threaten US space assets.

to deny the United States access to key strategic choke points in the region and Sea Lines of Communication (SLOC).¹³⁰

China's leaders continue to publicly assert that China's military modernization is "purely defensive in nature," and aimed solely at protecting China's security and interests.¹³¹ Given China's surging economic development and expansion, its security and interests are becoming increasingly far-flung, much beyond its traditional focus on its immediate periphery and the Taiwan Strait. Force projection capabilities beyond these areas remain limited but growing, particularly naval capabilities.¹³² The United States military, while continuing to echo the official United States government position of welcoming the rise of a peaceful and prosperous China, remains somewhat skeptical of Chinese military long-term intentions, as well as concerned about the lack of transparency associated with its military expansion.¹³³

¹³⁰ Arthur Herman, "America's Looming China Challenge," *New York Post*, January 26, 2010

¹³¹ U.S. Department of Defense, *Military Power of the People's Republic of China 2009, Annual Report to Congress, I; China's public stance emphasizing its peaceful and cooperative intentions is set forth in China's National Defense White Paper for 2006*:

"To uphold world peace, promote common development and seek cooperation and win-win is the common wish of the people around the world and an irresistible trend of our times. Committed to peace, development and cooperation, China pursues a road of peaceful development, and endeavors to build, together with other countries, a harmonious world of enduring peace and common prosperity. Never before has China been so closely bound up with the rest of the world as it is today. The Chinese government works to advance both the fundamental interests of the Chinese people and the common interests of the peoples of the rest of the world, and pursues a defense policy which is purely defensive in nature. China is determined to remain a staunch force for global peace, security and stability." *China's National Defense White Paper for 2006*, Beijing, China: Information Office of the State Council of the People's Republic of China, December 29, 2006, Preface.

¹³² 2009 Report to Congress of the U.S.-China Economic and Security Review Commission, p. 16; Growing naval capabilities and resulting increasing aggression were evidenced by 2009 incidents involving China's attempted enforcement of its asserted 200 mile exclusive economic zone and exclusion of foreign military vessels from that zone. In March 2009, five Chinese vessels surrounded and stopped the intelligence and surveillance ship USNS Impeccable about 75 miles from Hainan Island. A second U.S. Navy ship was similarly confronted within the 200 mile zone in 2009. These represented probably the most aggressive actions by Chinese naval vessels against U.S. ships since the 2002 incident in which an unarmed U.S. Navy surveillance ship was harassed and rammed by the Chinese vessels off the China coast.

¹³³ *Ibid.*, p. I; "The United States welcomes the rise of a stable, peaceful, and prosperous China, and encourages China to participate responsibly in world affairs by taking on a greater share of the burden for the stability, resilience, and growth of the international system. The United States has done much over the last 30 years to

China's strategic behavior is increasingly shaped by energy dependence and security.¹³⁴ China's seemingly insatiable demand for oil will continue to create a strong competitive challenge for the United States as both vie to secure long-term supplies at the best possible prices. China's enormous demand has significant effects on oil prices and supplies. The growth of China's naval capabilities is directly tied to the nation's energy security. Energy security is in turn strongly interrelated to economics and environmental issues. China is the world's second largest importer of crude oil, with such imports accounting for over half its overall oil demands.¹³⁵ The bulk of this imported oil arrives via tankers transiting through the Malacca or Lombok-Makassar Straits, very narrow potential choke points.¹³⁶ China is also embroiled in a number of territorial disputes with other Asian countries involving exclusive economic zones surrounding a number of islands in the South China Sea, to include the Spratly Islands. These zones include potentially valuable off-shore oil and gas deposits. As part of its strategy to ensure

encourage and facilitate China's national development and its integration into the international system. However, much uncertainty surrounds China's future course, particularly regarding how its expanding military power might be used." Similar concerns are also noted in the most recent U.S. Department of Defense, *Quadrennial Defense Review Report*, Washington, DC: U.S. Department of Defense, February 1, 2010, p. 31: "China has shared only limited information about the pace, scope, and ultimate aims of its military modernization programs, raising a number of legitimate questions regarding its longterm intentions." It is also worth noting that the language from the 2006 *Quadrennial Defense Review Report* stating that "China has the greatest potential to compete militarily with the United States and field disruptive military technologies that could over time offset traditional U.S. military advantages." U.S. Department of Defense, *Quadrennial Defense Review Report*, Washington, DC: U.S. Department of Defense, February 6, 2006, p. 29, was not included in the 2010 version of the QDR. The 2008 National Defense Strategy does state "China is one ascendant state with the potential for competing with the United States, and the US needs to hedge against its growing military modernization." U.S. Department of Defense, National Defense Strategy of the United States of America, 2008, p. 3; and the 2009 National Intelligence Strategy references the China concern as "China shares many interests with the United States, but its increasing natural resource-focused diplomacy and military modernization are among the factors making it a complex global challenge," Director of National Intelligence, *The National Intelligence Strategy of the United States of America*, August 2009, p. 3.

¹³⁴ U.S. Department of Defense, *Military Power of the People's Republic of China 2009*, p. 3

¹³⁵ *Ibid.*, 3-4,

¹³⁶ *Ibid.*, 4, China obtains 46 percent of its imports from the Middle East, 32 percent from Africa, and 5 percent from East Asia. The oil from Africa generally has to transit the same narrow straits.

its energy security, China has embarked upon aggressive efforts to secure long-term energy contracts on a global basis.¹³⁷

To enhance the security of oil and gas shipments to China, China has implemented what a report by US defense contractor Booz Allen Hamilton (BAH), refers to as the “pearls strategy.” The strategy basically consists of the extension of PLAN power through ports leased and acquired from Myanmar, Sri Lanka and Pakistan. According to the BAH report, “China is building strategic relationships along the sea lanes from the Middle East to the South China Sea in a way that suggests defensive and offensive positioning to protect China’s energy interests.”¹³⁸

The “pearls strategy” is consistent with China’s intense development of a powerful “blue” water navy to enable China’s economic development.¹³⁹ It further signals that China is no longer content to rely upon the traditional role of the United States in ensuring the security of the global commons including the crucial sea lanes of the South China Sea.¹⁴⁰ While it is doubtful China questions the ability of the United States to provide such security, China does not want to be in a position where the United States could either use it as leverage over China or where the United States could shut off access to China in the event

¹³⁷ U.S. Department of Defense, *Military Power of the People’s Republic of China 2009*, 5-6. China has pursued long-term supply contracts with a diverse range of supplier nations to include Australia, Chad, Egypt, Indonesia, Kazakhstan, Nigeria, Oman, Russia, Saudi Arabia, Sudan, and Venezuela. China has also pursued equity positions in a variety of overseas energy assets and investments including investments by its national oil companies in oil ventures (such as oilfield development, pipeline, and refinery projects) in Kazakhstan, Turkmenistan, Nigeria, Sudan, and in over 20 countries in North Africa, Central Asia, Southeast Asia, Latin America, and North America. This strategy of economic and political expansion into resource rich regions includes utilizing any and all means including lobbying, financial aid, and information exchange. In addition, China continues to negotiate and pursue a number of territorial disputes which involve ownership of potentially lucrative off-shore oil and gas deposits to include areas of the East China Sea (disputes with Japan) and South China Sea (Spratly Islands).

¹³⁸ Jason J. Blazevic, “Defensive Realism in the Indian Ocean: Oil, Sea Lanes and the Security Dilemma,” *China Security*, vol. 5 No. 3, 2009, 38

¹³⁹ See comments by PLA General Wen Zongren in Zhang Wenmu, “China’s Energy Security and Policy Choices,” *Shijie Jingji Yu Zhengzhi*, May 14, 2003, pp. 12-13; Annual Report-Military Power 2009, p. 12

¹⁴⁰ More than half of the world’s oil tanker traffic and half of the merchant fleet by tonnage pass through the South China each year, David Rosenberg and Christopher Chung, “Maritime Security in the South China Sea: Coordinating Coastal and User State Priorities,” *Ocean Development & International Law*, 2008, 51

of conflict between the two. For China, adherence to the old adage “For whosoever commands the sea commands the trade; whosoever commands the trade of the world commands the riches of the world, and consequently the world itself,”¹⁴¹ remains critical for its economic development and security.

Cyber attacks and intrusions remain a key element of China’s defense strategy as well as its economic development. Recent years have seen marked increases in cyber intrusion activity originating in China and targeting United States government and defense-related computer systems. The attacks range from targeting infrastructure related systems to business and financial systems as well as those containing defense and military data.¹⁴² While the majority of these attacks are focused on intelligence collection, the PLA continues to develop considerable capabilities to take offensive actions against United States government and military systems, and has made exploitation of these systems a key part of its strategy in the event of conflict with the United States.¹⁴³ This type of asymmetric warfare is consistent with the classical Chinese strategic thinkers and a means of negating the far superior strength of the United States military.¹⁴⁴

Beyond cyber intrusions, China has made concerted efforts to enhance its military modernization and economic development through widespread espionage against the United States. No country is more aggressive in targeting United States sensitive defense-related and proprietary commercial information than China.¹⁴⁵ China has traditionally relied upon vast numbers of ethnic Chinese in the United States to

¹⁴¹ Sir Walter Raleigh, “A Discourse of the Invention of Ships, Anchors, Compass, &c.”

The Works of Sir Walter Raleigh, Kt., vol. 8 (1829, reprinted 1965), 325

¹⁴² 2009 Report to Congress of the U.S.-China Economic and Security Review Commission, p. 5, 16; Intrusions and attacks originating in China and directed against Defense Department computers in 2009 were estimated at about 240 per day and cost as much as \$200 million to repair the damage. While it is often difficult to determine the exact source of the attacks, anecdotal and forensic evidence implicates the Chinese government in many of the attacks, whether directly or through third party surrogates.

¹⁴³ *Ibid.*, p. 8

¹⁴⁴ United States Joint Forces Command, “The Joint Operating Environment 2008: Challenges and Implications for the Future Joint Force,” (2008), 26

¹⁴⁵ 2009 Report to Congress of the U.S.-China Economic and Security Review Commission, p. 5; also see statements from FBI Director Robert Mueller: “China is stealing our secrets in an effort to leap ahead in terms of its military

act as collectors of sensitive and classified information, recruiting them to collect information as a matter of obligation to their Chinese heritage. Collection efforts tend to be less targeted and more volume oriented. Based on law enforcement cases which have involved the illegal acquisition of United States controlled technologies, technologies which have been illegally exported to China include rocket launch data, space shuttle technology, missile technology, naval warship data, unmanned aerial vehicle technology, thermal imaging systems, and military night vision systems.¹⁴⁶

China's emphasis and focus on economic development also has significant impacts on nuclear proliferation and weapons of mass destruction proliferation matters, which in turn directly impact United States national security interests. The three states posing the greatest risk to those national security interests from a proliferation perspective are Iran, North Korea, and Pakistan. China has been instrumental in providing the key technologies, equipment, and knowhow for all three to develop their respective nuclear and WMD capabilities.¹⁴⁷ Furthermore, China's policies continue to protect and allow such capabilities to continue, particularly through its refusal to agree to stricter UN sanctions and enforcement mechanisms.

It is China's relationships with Iran and North Korea which so exemplify the frustrations and complexities endemic to the U.S.-China relationship. According to the National Security Strategy of the United States, the United States faces no greater threat from any one country than that from Iran.¹⁴⁸ In no

technology, but also the economic capability of China. It is a substantial threat," House Committee on the Judiciary, *Oversight Hearing on the Federal Bureau of Investigation*, testimony of FBI Director Robert Mueller, 110th Cong., 1st sess., July 26, 2007; and from Joel Brenner, National Counterintelligence Executive, that China's intelligence services are the most aggressive foreign entity trying to penetrate U.S. targets.

¹⁴⁶ Ibid., p. 149; U.S. Department of Justice press release, "More Than 145 Defendants Charged in National Export Enforcement Initiative During Past Fiscal Year," October 28, 2009. <http://usdoj.gov/opa/pr/2008/October/08-nsd-958.html>

¹⁴⁷ John W. Garver, *China & Iran: Ancient Partners in a Post-Imperial World*, (Washington: University of Washington Press, 2006), 281

¹⁴⁸ *The National Security Strategy of the United States of America*, March 2006, p. 20. These threats include Iran's continuing efforts to develop nuclear weapons, its sponsoring of terrorism, and other destabilizing efforts such as its interference in democracy efforts in Iraq.

area is it more evident that China is both a partner and a rival of the United States. While China has cooperated with the United States on some matters involving Iran, it has either opposed or worked against the efforts of the United States regarding Iran in many other areas. China has consistently thwarted United States efforts to sanction Iran; has served as Iran's major arms supplier; continued to pursue economic development opportunities with Iran at times the United States and other nations were trying to contain Iran; helped Iran circumvent United States efforts to deny Iran access to advanced militarily relevant technology; consistently supplied Iran with dual-use technology and machinery applicable to Iran's missile, advanced conventional weapons, and chemical warfare programs; and served as Iran's major nuclear partner for twelve years.¹⁴⁹ China and Iran are important trade partners and China is increasingly reliant upon oil and gas from Iran. Another important factor is that China and Iran view their countries as sharing a common identity theme as historically accomplished and powerful societies which were victimized in modern times by imperial Western powers.¹⁵⁰

Despite their shared affinities, China has on occasion cooperated with the United States regarding Iran when it meant risking its relationship with the United States, the latter ultimately being more important to China's economic development.¹⁵¹ However, the level of that cooperation is open to considerable debate, and the fact remains that China is the nation whose full cooperation is most needed in order to prevent Iran from developing a nuclear weapons program and supporting terrorism.¹⁵² In some

¹⁴⁹ Garver, *China & Iran*, 282

¹⁵⁰ Ibid., 4. China has pledged billions of dollars in energy infrastructure investment in Iran in exchange for guaranteed supplies of oil and natural gas.

¹⁵¹ Ibid., 139; for example, China abandoned its official nuclear cooperation with Iran in 1997 under intense U.S. pressure and despite vehement protest and backlash from Iran. When the level of U.S. pressure reached a point at which China determined its economic interdependence with the U.S. could be negatively impacted, China suspended the cooperation with Iran causing the tension. There also arises a point where China becomes concerned with Iran's role in possible instability in the Middle East and determines that behavior conflicts with China's interest, thereby leading China to distance itself from Iran.

¹⁵² Ibid., 283. Even when China has on the surface appeared to cooperate with the U.S. regarding Iran, it has often created loopholes which in effect allow it to continue cooperating with Iran while appearing to be cooperative with the U.S. to prevent the very activities engaged in. For example, China agreed to end Silkworm cruise missile sales

respects, China utilizes its relationship with Iran as leverage in its dealings with the United States, particularly in regards to Taiwan. The dynamic being that China's dealings with Iran cause the United States as much consternation as the United States relationship with Taiwan does China. It seems hardly a quid pro quo when the comparison involves a country (Iran) which threatens global stability and the other which only threatens China's sovereignty and pride.

It has been suggested from the nature of these relationships that a strategic bargain could be worked out between China and the United States in which Washington acknowledges that Taiwan is in China's sphere of influence and agrees not to oppose China's efforts to order China's relations with Taiwan. In return, Beijing would accept that Iran and the Middle East are in the United States sphere of influence and agree not to oppose efforts to sanction Iran or otherwise prevent it from developing a nuclear weapons program.¹⁵³ Perhaps it is not too farfetched given the improving relations between China's leaders and Taiwan's current leadership and increasing interdependencies of the respective economies. The time period of 2012-2013 will be a critical one for China-Taiwan relations as well as their respective relations with the United States with key elections upcoming in all three that could bring sweeping leadership changes.

to Iran and forego sales of other ballistic missiles, but it then transferred to Iran technology and machinery allowing Iran to develop and manufacture comparable missiles themselves. China also continually provides dual-use items and facilities to Iran. The U.S. levied sanctions on China at least 16 times between 1987-2004 for its cooperation with Iran and Pakistan. At the Shanghai Cooperation Organization summit in October 2009, China praised its growing energy and trade relationship with Iran and indicated it would not support efforts by the United States and its allies to sanction Iran over its nuclear program.

¹⁵³ Ibid., 296

OPTIONS AND OPPORTUNITIES

"The United States is not only the sole global power, its values inform a global consensus, and it dominates to an unprecedented degree the formation of the first truly global civilization our planet has known."

--Walter Russell Mead, *Special Providence*¹⁵⁴

"The challenge that Chinese power presents to the rest of the world is to use it productively, not to tame it."

--David M. Lampton, *The Three Faces of Chinese Power*¹⁵⁵

As the central power in this global system of finance, communications, and trade, the United States has enormous responsibilities which become increasingly challenging as the global system continues to grow. Nowhere is this more apparent than in the relationship with China. A key challenge is to prevent other nations from challenging the basic structures of the existing system while at the same time ensuring that the system works for other nations.¹⁵⁶ The global economic crisis has only added to that challenge. A rising China will present complex challenges for the United States, for Asia, and for the world. As will be explored herein, containment of that power may not be either the possible or desired course of action; using that power as an opportunity being a potentially more productive option.

America's bilateral relationship with China is by far the most contentious and complicated American relationship in Asian or world affairs.¹⁵⁷ Absent the willingness of the United States to

¹⁵⁴ Walter Russell Mead, *Special Providence: American Foreign Policy and how it Changed the World*, (New York: Routledge, 2002), 10

¹⁵⁵ David M. Lampton, *The Three Faces of Chinese Power: Might, Money, and Minds*, (Berkeley, CA: University of California Press, 2008), 253

¹⁵⁶ Ibid., 28

¹⁵⁷ Sutter, *China's Rise in Asia*, 1

establish and enforce clear boundaries China should not cross, while avoiding challenges to core Chinese interests, China's leaders would be prone to adopt increasingly more assertive and disruptive positions in Asian affairs. Without the American counterbalance, traditional ambitions, domestic political pressures, and realist power considerations would push China in this direction.¹⁵⁸ On the other hand, the U.S.-China relationship is complicated by the fact China is both an emerging power and a developing nation. This requires a delicate balancing by the United States in being cooperative in addressing developmental issues with China while remaining cognizant China's growing economic strength will affect American and global interests. It also requires a certain degree of patience on the part of the United States in its expectations of what China can contribute toward various global issues of concern. Realizing when to push and expect more and when to be more patient will remain a challenge, but an important one in which to succeed.¹⁵⁹

China's Readiness for Global Leadership

There are few indications that China will be ready for global leadership anytime soon, if ever. Its leaders continue to fear that taking on too many global responsibilities would divert China's attention and resources from its economic development and modernization; China's foreign policy serves those domestic goals. It was reflected in China's response to the global financial crisis, which was in essence "we will help the world by helping ourselves."¹⁶⁰ China has, however, begun to show some movement away from its longstanding foreign policy of noninterference in state sovereignty and freedom from hegemony. This appears at least in part to result from realizing the value of promoting political stability

¹⁵⁸ Ibid., 6

¹⁵⁹ Lampton, *The Three Faces of Chinese Power*, 250

¹⁶⁰ Evan S. Medeiros, "Is Beijing Ready for Global Leadership," *Current History*, September 2009, vol. 108, no. 719, p.250, 256

and reduction in violence in those regions which most directly affect China's investments and interests.¹⁶¹

A potential problem the United States faces in trying to encourage China to become more engaged in global problem solving and maintenance of the existing international system concerns what has been termed the "stakeholder paradox." This encouragement could also spur China's global ambitions and its capabilities to pursue them, often in contradiction to the existing system promoted by the United States. "China fears the burdens of leadership, but wants the status and influence."¹⁶²

A trend which may portend a shift in China's strategy toward more bellicose behavior is suggested by several recent actions: its central but overall unhelpful role at the climate-change talks in Copenhagen in which it in essence scuttled any hopes of reaching any meaningful agreements; its efforts to thwart any UN or major power consensus concerning Iran's nuclear program; recent fights it has picked with India, Japan, and Vietnam regarding territorial disputes; refusal to end continued currency manipulation; and threats to seek sanctions and trade restrictions against U.S defense companies involved in the most recent announced arms sales to Taiwan. The more aggressive behavior may well be tied to renewed confidence China obtained via the relative ease in which it appears to have weathered the global economic crisis and a corresponding new found belief that it has become a global power much quicker than even it anticipated.¹⁶³ If in fact China's leaders believe it has arrived as a fully developed global power with the attendant power and influence it carries, then the United States should apply strong pressure on China to take up its share of the burden of global governance; a burden which China has

¹⁶¹ Ibid., 254. However, China's leaders continue to fear entangling China in other nations' affairs may encourage others to interfere in China's internal affairs; Also of interest is the "Banyan" article in *The Economist*, November 7, 2009, discussing China's \$3.5 billion investment in the Aynak copper mine in Afghanistan- the 2nd largest untapped source of copper in the world. Though China sends peacekeepers to far-flung locales like Haiti and Sudan, it has no military presence in Afghanistan despite the close proximity to China's border. Instead, the security for the mine is paid for by others such as Afghan police, subsidized by the Japanese and American Army Tenth Mountain Division. China complains publically about the U.S. military presence in Afghanistan, but lets America shoulder the burden of protecting its economic interests there. The opportunity to profit trumps all other concerns.

¹⁶² Ibid., 256

¹⁶³ "Facing up to China," *The Economist*, February 4, 2010

heretofore refused to shoulder due to the own burdens upon it as a developing power.¹⁶⁴ It should not be acceptable for the global community to allow China to have its cake and eat it too.

Options for United States in Protecting National Security Interests from an Economically Strong China

Aside from military strength, what options exist for the United States in protecting its national security interests in an international environment which includes an economically strong China? Basic options revolve around balancing against China (containment), accommodating China, or some middle ground between the two. Efforts to contain China's economic growth could be attempted through economic denial or economic warfare strategies. Economic denial strategies would involve the use of strategic embargoes to deny China access to advanced technology and arms. The United States already has a number of export controls in place on select advanced technology and arms items, but a broader strategy of economic denial would require considerable increases in such controls. Strategic embargoes generally are more effective than economic warfare, which is designed to weaken the ability of a state's economy to generate and sustain its military power. The most direct way to achieve this with China would be to block all of China's exports to the United States, cease all United States foreign direct investment in China, and ban all American agricultural and high-technology exports to China.¹⁶⁵

¹⁶⁴ What pressure the U.S. should apply is of course the exceedingly difficult issue. It would necessarily involve the application of stronger diplomatic and economic pressures on many fronts, holding China accountable before international institutions such as the U.N. and WTO. Even though the U.S. has had limited success in doing so, it is an important step in pursuing U.S. soft power and creating favorable international opinion and consensus. The caveats are that the U.S. will have to accept being held to the same standards and abide by some of the international norms it has previously declined to follow. There is also a fine line between applying a degree of pressure and being seen as coercive which is often difficult to discern.

¹⁶⁵ Art, "The United States and the Rise of China," 264; of course others being far more distrustful of China have proposed much harsher measures. Bill Gertz insists that democracies cannot coexist indefinitely with powerful and ambitious totalitarian regimes. "The great threat of the twenty-first century-to the U.S. and to the world-is the nuclear-armed communist dictatorship in the People's Republic of China," Bill Gertz, *The China Threat: How the People's Republic Targets America* (Washington, D.C.: Regnery, 2000), 199. Gertz argues that China's government has repeatedly shown itself to be prone to massive miscalculations and has been responsible for 44.5 to 72 million deaths through repressions, famine, executions, and forced labor, that it views the very existence of the U.S. as a

The United States has used economic denial against nine nations since 1945, including against China and the former Soviet Union. The denials had little effect on these two large powers because at the time their economies were not much dependent on foreign trade. Smaller nations which had economic denial applied against them suffered less than they might have because their Chinese or Soviet patrons bailed them out.¹⁶⁶ Paradoxically, economic denial could work more effectively now against China than during the Cold War because China is highly connected to the global economy, but it would also hurt the United States economically due to the high level of economic interdependence between the two nations.¹⁶⁷ Which country would be hurt worst is debatable, but undoubtedly both would suffer substantially from such policies. Whether they like it or not, both economies are highly dependent on each other. Their economic interdependence has been referred to as the foreign-exchange version of the Cold War stalemate based on “mutually assured destruction,” as “mutually destructive protectionism,” or perhaps “mutual economic destruction.”¹⁶⁸

Economic warfare against China is unlikely to be effective for other reasons as well. Unless it appears provoked by China’s actions, economic warfare would likely garner very little support from the international community and would hurt United States diplomatic and political power. Economic warfare rarely works when only one nation applies it. To be effective, it requires all of America’s trading partners

threat, and that the loosening of trade restrictions by the Clinton administration vastly improved China’s military power with transfers of strategic high-technology, pp. 7, 11.

¹⁶⁶ Ibid.

¹⁶⁷ Ibid., 265

¹⁶⁸ “A Wary Respect,” *The Economist*, October 24, 2009; Kenneth Lieberthal, “The China-U.S. Relationship Goes Global,” *Current History*, September 2009, vol. 18, no. 719, p. 246; However, as is argued in Steven Dunaway, “The U.S.-China Economic Relationship: Separating Facts From Myths,” *Council on Foreign Relations*, November 16, 2009, the U.S. may not be as dependent upon China economically as many believe, in addressing the following “myths:” Though China is a major customer for U.S. debt, it is not America’s banker, and U.S. is not dependent upon China to finance its budget deficits. There are plenty of other willing public and private sector buyers. The U.S. is not heavily dependent upon cheap Chinese goods as all the goods China exports can easily be imported from other countries or produced domestically. China is actually more dependent upon the U.S. as a market for its goods than the U.S. on China.

to work in unison as well as support from an international organization. China has worked diligently developing strong trading and diplomatic relations with other nations to prevent coalitions from developing against its interests. “Only a militarily aggressive, heavy-handed, unilateralist Chinese foreign policy would create the political conditions necessary for a compound containment strategy against China.”¹⁶⁹ Absent those conditions, which are possible but not likely given China’s pragmatic leadership, economic warfare would create a self-fulfilling prophecy. As Joseph Nye put it, “The best way to make an enemy of China is to treat it like one.”¹⁷⁰

Even were the United States able to weaken China economically through containment efforts, it again raises the question as to whether a weak China unable to deal with its internal problems would be a greater global stability risk. Moreover, in pursuing such a course, the United States would shut off potential positive cooperative opportunities and lose out on those benefits to competitors from around the globe.¹⁷¹

Perhaps no one disagrees with the use of engagement strategies over containment or balancing ones more strongly than John Mearsheimer. Mearsheimer has vehemently argued that American policies seeking to engage, not contain, China and integrate it into the world economy so that it becomes wealthy and content with the existing international system, are misguided. According to Mearsheimer, China will seek regional hegemony regardless of how well the United States and the existing system treats it, because that is the best way for China to ensure its survival in a realist world.¹⁷²

One possible criticism of Mearsheimer’s offensive realism theory which forms the basis for his opinions regarding China is that it does not take into account the cost of war. The conflicts which inevitably result from seeking hegemony are costly and make conflict inefficient to the point they actually

¹⁶⁹ Art, “The United States and the Rise of China,” 266

¹⁷⁰ Quoted in Art, “The United States and the Rise of China, 266

¹⁷¹ Lampton, *The Three Faces of Chinese Power*, 2

¹⁷² Mearsheimer, *The Tragedy of Great Power Politics*, 402

make states less secure. Eventually, the repeated costs of fighting wars decrease the state's power. Additionally, even successful expansion tends to lead to overstretch with its accompanying negative impacts on the state's domestic economic base.¹⁷³ Being aware of these costs and inefficiencies, states may in fact be less likely to engage in seeking hegemony as a means to ensure its survival.

As former national security advisor Zbigniew Brzezinski has pointed out, today's world is much different than the one where hegemonic powers could go to war without destroying each other as societies; the nuclear age has altered power politics significantly.¹⁷⁴ Mearsheimer's argument regarding China also assumes that most of China's neighbors, to include Japan, India, Singapore, South Korea, Russia, and Vietnam, would join with the United States to contain China's power.¹⁷⁵ The trends in relations among Asian nations do not necessarily support that assumption. There has been increasing tendencies among Asian nations to develop closer relations with China and in fact accommodate it in most instances. There is little interest throughout Asia in balancing or containing China.¹⁷⁶ As mentioned above, only a militarily aggressive, heavy-handed, unilateralist Chinese foreign policy would create the political conditions necessary for most Asian states to support containment efforts toward China. That is not to say that China will not at some point down the road when it believes it has achieved the necessary levels of power and influence, refrain from taking those types of aggressive moves. However, until other nations are convinced they will, those nations are unwilling to take steps now to prevent what might happen at some point in the future.

Attempts by the United States to resist or contain China's "peaceful rise" would be unpopular in much of Asia. Most Asian nations are more prone to accommodate or bandwagon with China than to

¹⁷³ Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987)

¹⁷⁴ Zbigniew Brzezinski and John J. Mearsheimer, "Clash of the Titans."

¹⁷⁵ John Mearsheimer, "Can China Rise Peacefully," September 17, 2004, accessed online on January 3, 2010 at <http://mearsheimer.uchicago.edu/pdfs/A0034b.pdf>

¹⁷⁶ Layne, *Peace of Illusions*, 151

balance or contain, and they would be unwilling to support United States efforts toward the latter absent some overly aggressive or threatening behavior by China.¹⁷⁷ Many are merely hedging and desire the continued presence of the United States in the region to help ensure China remains a good neighbor. All East Asian states, including China and North Korea, desire good relations with America; none of them, not even China, want to exclude the United States from the region.¹⁷⁸ More attention to and involvement in the region by the United States is desired. What is not wanted is heavy-handed United States behavior in the region, particularly in regards to China. Asian nations do not want the United States creating potential instability through containment efforts, and they do not want to be put in the position of having to choose between either China or the United States. As a senior Singapore official advised in 2005, “Our worst fear is to get two simultaneous phone calls, one from Washington, the other from Beijing, asking us to take sides in a conflict.”¹⁷⁹ In the opinion of Australian security specialists, the ability of the United States to contain or pressure China has long been weakened by Asian nations’ unwillingness to choose between the two. Absent irresponsible actions by China, its influence in Asia will likely grow. This is not to say that the influence of the United States cannot grow along with it, and it is worth noting that it grows from a much more powerful base.¹⁸⁰

Pulitzer Prize winning international relations expert Walter McDougall is of the opinion “...we should not even whisper the word ‘containment’ with respect to China, for instance, lest we slip half aware into another protracted cold war.”¹⁸¹ Instead of containment policies, McDougall suggest the United States do three things in response to a rising China: promote a regional security framework in which China will participate, determine how far and precisely where Chinese power would have to extend

¹⁷⁷ Sutter, *China’s Rise in Asia*, 277

¹⁷⁸ Kang, *China Rising*, 188

¹⁷⁹ Lampton, *The Three Faces of Chinese Power*, 164

¹⁸⁰ Sutter, *China’s Rise in Asia*, 277

¹⁸¹ McDougall, *Promised Land, Crusader State*, 212

before United States' interests are truly threatened, and if the first fails, maintain the alliances and military presence needed to actively balance China in case the second occurs.¹⁸² McDougall has no faith in the United Nations to resolve any meaningful issues. Regarding any crisis, if the great powers and relevant local powers are in agreement or at least do not dissent, there is no need for the UN. When those powers do not agree, "the UN is impotent."¹⁸³

McDougall supports George Kennan's commonsense policy regarding America's behavior and pursuit of its national interest: "...It would restrict our undertakings to the limits established by our own traditions and resources. It would see virtue in our minding our own business wherever there is not some overwhelming reason for minding the business of others."¹⁸⁴ Determining when that "overwhelming reason" has been reached is the challenge, all the more importance in regards to China for determining when the interests of the United States are truly threatened by Chinese power.

Retired General and former National Security Advisor and Secretary of State Colin Powell shares the opinion that containment is not the best policy, nor does he believe military strength to be the most important element of American national power in today's world: "Our strategy of containment died with the Soviet Union." Powell further believes that "In this new world, economic strength will be more important than military strength. The new order will be defined by trade relations, by the flow of information, capital, technology, and goods, rather than armies glaring at each other across borders." Powell adds that "Nations seeking power through military strength, the development of nuclear-weapons, terrorism, or tyrannical governments are mining 'fool's gold.' They can never hope to match or challenge the military and economic power of the free world led by the United States."¹⁸⁵

¹⁸² Ibid.

¹⁸³ Ibid., 213

¹⁸⁴ George F. Kennan, *At a Century's Ending: Reflections, 1982-1995*, (New York: W.W. Norton, 1996), 282

¹⁸⁵ Colin Powell, *My American Journey* (NY: Random House, 1995), 588-592

Some experts believe the simple fact is the United States cannot stop China's rise short of preventive war. It could perhaps slow it for a time through hostile economic policies, since containing China's power would require containing China's economic growth, upon which all else depends.¹⁸⁶ Instead, the United States' policy should seek to accommodate China's interests where they do not threaten America's vital interests, but draw clear lines when they do. A balanced strategy of accommodation and strength is favorably disposed to ensure a maximum convergence of American and Chinese interests.¹⁸⁷ Since it appears no longer possible to isolate or contain China, the United States in effect has no reasonable option but to engage, and should attempt to do so in a manner which maximizes the many potential opportunities.¹⁸⁸

As it often the case, the most effective United States policy regarding China is probably somewhere in the middle between containing or balancing China and accommodating it. It is a policy which involves a degree of hedging, which the United States has done. For example, the United States has sought closer engagement and cooperation with China regarding economic relations, but also taken repeated political, military, and economic steps intended to pressure China to change its political system or conform to international norms supported by the United States.¹⁸⁹ Australian political science professor William Tow suggests the best approach for achieving conflict avoidance in the Asia-Pacific region is a carefully integrated utilization of both realism and liberalism, what he terms a "convergent security" approach.¹⁹⁰ This he defines as a "managed transition from a regional security system based

¹⁸⁶ Art, "The United States and the Rise of China, 262

¹⁸⁷ Ibid., 289-290

¹⁸⁸ Bergsten, *China's Rise: Challenges and Opportunities*, 237

¹⁸⁹ Sutter, *China's Rise in Asia*, 274-275

¹⁹⁰ Tow, *Asia-Pacific Strategic Relations: Seeking Convergent Security*, 2

predominately on realist-oriented bilateral security arrangements to one based increasingly upon regional multilateral arrangements.”¹⁹¹ This is indeed the trend being played out in the Asia-Pacific region today.

Attempts by the United States to “encourage” or push China to move away from communist rule and toward democracy would be unwise and unfruitful. For one, it would be seen by China and other countries as “meddling” by the United States and an example of the United States trying to shape the world in its own image. Furthermore, if China wants to become and stay a superpower which can compete with the United States economically and in global influence, it will likely have to eventually move away from a communist authoritarian rule. Autocracies in general can act as a brake on creativity and ingenuity, traits which are key drivers of vibrant long-term economic growth. As the country continues to modernize, the Chinese people may become less and less tolerant of such rule and seek more ability to be heard and compete.¹⁹² Arguably, it was economic growth in South Korea and Taiwan which spurred political development and the move toward a more pluralistic and democratic form of government.¹⁹³ If the existing government in China fails to adapt to these changes and away from authoritarian rule, it will be under increasing risk of being overthrown. It may not happen in the near future, but over time the pressure to change may become overpowering. That is not to say there will ever be a movement in China toward a Western style democracy, just that the government will eventually acquire more democratic characteristics.

A critical dynamic in China over the coming decades will be the growth of a potentially enormous middle class. Western thought generally considers a growing middle class to exert pressures on government for democratic changes; certainly toward a more pluralistic and participatory government. While China’s leaders are cognizant of this potential source of instability and pressure for regime change, they appear confident that the rising middle class will instead be a source of social and economic

¹⁹¹ Ibid., 9

¹⁹² Huntington, *The Clash of Civilizations*, 238

¹⁹³ Ibid.

stability.¹⁹⁴ Time will tell, but perhaps a greater potential source of social instability is the ever expanding interaction of the Chinese population with the outside world in terms of trade, investment and education as China continues to increasingly integrate with the global community.¹⁹⁵

On the other hand, China has served as a shining example to other authoritarian governments of developing a dynamic economy while maintaining total control on political power, and this no doubt has contributed to the seemingly declining appeal of democracy.¹⁹⁶ It is often suggested that democracies in fact can hamper a country's progress in the absence of sufficient structure to properly support it such as rule of law, protection of human rights, and checks on government power. Accordingly, it would be unwise to push for democracies in such circumstances.¹⁹⁷ This supports the argument of those defending the "East Asian model" in which economic development precedes democracy.

The United States must continue to pursue its national security interests, but should prioritize goals on achieving and maintaining stability around the globe, not the idealized pursuit of spreading democracy. The challenge is in overcoming suspicions and opinions in many countries that America is seeking to westernize the rest of the world. Actions and strategic communications are both critical in such efforts. That is not to say America should shrink from promoting certain Western ideals and policies which are most likely to promote stability, but the focus should never be on replacing existing cultures with a Westernized one. "The belief that non-Western peoples should adopt Western values, institutions, and culture is false, immoral, infeasible, and dangerous."¹⁹⁸ Huntington believes that Western intervention in the affairs of other civilizations may be the single most dangerous source of instability and potential global conflict in today's world. "Survival of the West depends on Americans reaffirming their

¹⁹⁴ Lampton, *The Three Faces of Chinese Power*, 229

¹⁹⁵ Huntington, *The Clash of Civilizations*, 238

¹⁹⁶ "Crying for Freedom: Democracy's Decline," *The Economist*, January 16, 2010, p. 59

¹⁹⁷ *Ibid.*, 60

¹⁹⁸ Huntington, *Clash of Civilizations*, 307-312

Western identity and Westerners accepting their civilization as unique, not universal, and uniting to renew and preserve it against challenges from non-Western societies.” Huntington stresses that it is crucial for the United States to closely align with its European partners in order to protect the interests and values of the civilization they share.

Importance of Existing International System and Multilateral Institutions

For all the complaints about American unilateralism and unwillingness to work with multilateral institutions, it is conveniently overlooked by many that the existing global economic order which gave birth to and nurtured globalization was created largely by the United States. Following World War II, the United States was the driving force behind the creation of the United Nations (UN), International Monetary Fund (IMF), World Trade Organization (WTO), World Bank, North Atlantic Treaty Organization (NATO), General Agreement on Trade and Tariffs (GATT), and other institutions which provided the most rule-based structure for political and economic relations in history.¹⁹⁹ As such, the global order established by the United States is “built around multilateralism, alliance partnership, strategic restraint, cooperative security, and institutional and rule-based relationships.”²⁰⁰ In addition, the European Union (EU), which has been a tremendous tool for economic development in Europe, traces its origins back to the Marshall Plan and the insistence by the United States that European countries desiring funds through the Plan first establish some type of mechanism among themselves for cooperation and coordination.

In Asia, the United States continues to participate in the Asia Pacific Economic Cooperation (APEC), which consists of Pacific Rim countries. However, China has shown little interest in participating in APEC and has tried to steer others in Asia toward the Asia focused East Asia Summit (EAS). Though of late the United States has expressed interest in having some role in EAS, China has

¹⁹⁹G. John Ikenberry, “The Rise of China: Power, Institutions, and the Western Order,” Robert S. Ross and Zhu Feng, eds., *China’s Ascent: Power, Security, and the Future of International Politics*, (New York: Cornell University Press, 2008), 101

²⁰⁰ Ibid., 100

worked to prevent the United States from having any involvement in EAS or the Association of Southeast Asian Nations (ASEAN) and ASEAN+3 (which includes China). China's moves to strengthen ties in Asia and to promote Asian organizations that exclude the United States reflect a desire to prevent the United States from any attempt to contain China or to intervene in a Taiwan conflict. China seems to have adopted a policy of trying to gradually limit the influence of the United States in Asia.²⁰¹ It is important for the United States to step up its level of engagement with Asian nations and take initiative in setting up meetings and summits. In order for these engagements to be productive, the direct involvement of the President and high-level officials is required.²⁰² One proposal has been that China and the U.S. engage in an informal G-2 which would supplement, not supplant, the existing steering committees, including the G-7/8 and newly dominant G-20, and the multilateral institutions such as the IMF and WTO. The Strategic and Economic Dialogue (S&ED) initiated by the Obama administration and Chinese leaders, which met in July 2009 as a successor to the Senior Dialogue and Strategic Economic Dialogue (SED) began in 2006 by the Bush administration, appears to be moving in the direction of an informal G-2 between the two.²⁰³

It is important for the United States to be heavily involved in Asian related multilateral organizations regardless of their effectiveness so that the United States has a seat at the table, opportunity to perhaps shape policies, and perhaps most importantly to show the United States is strongly committed to the region. However, because the existing multilateral organizations have been ineffective for the most part, it is equally important for the United States to maintain its key bilateral relationships.²⁰⁴ The diplomatic tightrope does necessitate the United States ensuring the bilateral policies do not conflict with multilateral engagements and vice-versa, and that is no simple challenge. Once again, much of the

²⁰¹ Saunders, *China's Global Activism*, 1

²⁰² Ralph A. Cossa, et. al., *The United States and the Asia Pacific Region: Security Strategy for the Obama Administration*, Pacific Forum CSIS, February 2009), 40

²⁰³ Bergsten, Testimony before the Subcommittee on Asia, the Pacific, and the Global Environment

²⁰⁴ Cossa, et. al., *The United States and the Asia Pacific Region*, 40

difficulty concerns perception. For example, China invariably perceives United States bilateral or trilateral engagements with countries like India and Japan as attempts to contain China.

There are a number of reasons which help explain the decision by the United States to rely upon a “hub-and-spokes” bilateral relationships policy in Asia rather than the NATO type alliance preferred in Europe, among them being a mix of racial, historical, political and cultural factors.²⁰⁵ In the post World War II environment American policymakers tended to view their European allies as peers and members of a shared community, while viewing their potential Asian allies as part of a vastly different, and perhaps inferior, culture.²⁰⁶ Europe possessed a collective regional identity with which the United States readily identified, while such an identity was slow to emerge in Southeast Asia. Europe was considered a relatively homogenous place with the range of geographic and population sizes across the continent relatively insignificant.²⁰⁷ This stood in stark contrast to Asia with its wide variances in country size and distance between them. European countries are relatively affluent with developed economies, while economic circumstances vary greatly throughout Asia, and cultural backgrounds are much more diverse than in Europe.²⁰⁸

Although the United States attempted to establish a multilateral alliance in Southeast Asia, the Southeast Asian Treaty Organization (SEATO), at roughly the same time it established NATO, it was never multilateral in the same sense as NATO.²⁰⁹ Whereas the NATO treaty contains a commitment to collective defense stating that an attack on one will be considered an attack on all, the SEATO treaty

²⁰⁵ Christopher Hemmer and Peter J. Katzenstein, “Why is There No NATO in Asia? Collective Identity, Regionalism, and the Origins of Multilateralism,” *International Organization*, vol. 56, No. 3 (Summer 2002), 575

²⁰⁶ Ibid.

²⁰⁷ Mandelbaum, *The Case for Goliath*, 205

²⁰⁸ Ibid., 206; also see Huntington, *The Clash of Civilizations*, p.219, Huntington discusses the cultural as well as the political and economic differences between Europe and East Asia, noting that all the countries of Western Europe are stable democracies with market economies and high levels of economic development. Far greater differences exist throughout Southeast and East Asia.

²⁰⁹ Hemmer and Katzenstein, “Why is There No NATO in Asia?” p. 578

merely classified such an attack as a threat to peace and safety. Under the SEATO treaty, the United States retained the option to act bilaterally or unilaterally. NATO was established in the face of a perceived singular threat of a potential massive Soviet assault in Western Europe. There was no such singular threat existing in Southeast Asia. In addition, there was a wide discrepancy in the abilities and capabilities of Asian nations to provide security assistance. Finally, in essence there existed beliefs in America that Europe was simply more important to the United States than Asia.²¹⁰ All of the above factors worked against a true multilateral alliance in Asia like NATO, and go far in explaining why the United States has relied primarily on bilateral relationships in Asia.

Of at least equal importance to the multilateral and bilateral relationships, the global economic system put in place following World War II by the United States and other Western powers has played an important role in aiding the development of a global economy and ensuring global stability. It has well served the interests of the United States, no doubt providing the United States important advantages, but it has also served well developing economies such as China.²¹¹ “Unlike the imperial systems of the past, the Western Order is built around rules and norms of nondiscrimination and market openness, creating conditions for rising states to advance their expanding economic and political goals within it.”²¹² The system has its flaws and is in need of considerable reform, especially as a result of the current global economic crisis. While reform is needed, it would be destabilizing for the global economy were radical reforms made to the existing system.

So far, the most meaningful rumblings of desired reforms have come from China and a number of other countries suggesting a replacement be considered for the U.S. Dollar as the international reserve currency or global regulation of all banks.²¹³ Such a change would be a serious blow to the United States;

²¹⁰ Ibid.

²¹¹ Ikenberry, “The Rise of China and the Future of the West,” 31

²¹² Ibid., 29

²¹³ Kenneth Lieberthal, “The China-U.S. Relationship Goes Global,” *Current History*, September 2009, vol. 18, no. 719, p. 246. China’s suggestion was that the IMF develop a single global currency to replace the dollar as the

the protection of the U.S. dollar as the international reserve currency is critical in preserving America's global economic and political power.²¹⁴ While China may well seek some reforms or changes to the existing system as it grows in power and influence, it does not appear so much interested in seeking to do away with or radically alter the existing system, as it is in mastering the system to advance its interests.²¹⁵ So far, the system has well-enabled China's rise. Nonetheless, many experts are of the opinion that the existing system is in need of fairly significant reform and strongly suggest the United States lead those efforts, which must incorporate the interests of developing nations like China, in order to avoid the others from seeking more radical overhauls of the system.²¹⁶ The existing global order provides the best means to accommodate a rising China and any associated power shifts. "The road to global power, in effect, runs through the Western Order and its multilateral economic institutions."²¹⁷ Efforts by the United States to strengthen and reform the existing system will be critical for United States national security interests.

world's reserve currency. It would be a massive undertaking in that the dollar is used for 43 percent of all cross-border transactions and 66 percent of the world's central bank foreign currency reserves are in dollars. Most global contracts, especially those for oil, are denominated in dollars.

²¹⁴ Ashley J. Tellis, "The Global Economic Crisis and U.S. Power," *Strategic Asia 2009-10*, p.13); For an explanation of why this is important, see the 2009 Report to Congress of U.S.-China Economic and Security Review Commission, 26. The U.S. dollar became the world's official reserve currency following World War II and was used to establish a fixed rate of exchange among currencies. A reserve currency is held by governments, businesses, and individuals as an asset whose value is market based. Parties hold reserve currencies for reasons to include: as a hedge against inflation, a means of exchange to pay for imports, and to protect against a potential run on a country's own currency. Central banks hold a reserve currency in lieu of gold or other precious metal deposits. The U.S. dollar has been favored as a reserve currency because the U.S. has the world's largest economy and is the largest trading country, the global market for the dollar is broad and liquid, and the U.S. economy and its political system are considered stable. There are a number of advantages the U.S. gains from the U.S. dollar being the official reserve currency: the U.S. can issue bonds denominated in dollars which allows it to borrow without fear that a fall in the dollar's value will increase its debt, the U.S can choose to inflate its currency and reduce the burden of its debt, and U.S. currency held by foreigners becomes basically an interest-free loan to the U.S. government.

²¹⁵ Medeiros, "Is Beijing Ready for Global Leadership," *Current History*, p. 251

²¹⁶ Bergsten, et. al., *China's Rise: Challenges and Opportunities*, 238; Ikenberry, "The Rise of China and the Future of the West," 33

²¹⁷ Ikenberry, "The Rise of China and the Future of the West," 32

China often pursues strategies which conflict with norms and rules of the existing global order, but it should be noted that the United States and EU sometimes do as well. While that does not suggest the existing system should be scrapped, it does suggest reform is needed. Like it or not, China is an economic power and reform to the existing global economic system necessarily should encourage its full participation. It is not about treating China as a global power “equal,” but about recognition of China as an economic power with increasing global influence. To be successful, reforms to the existing system must have China’s input and support, not its inattention or active opposition. Reforms of this magnitude cannot, and will not, occur overnight, and certainly not without considerable debate and negotiation. One suggested approach has been for the United States and China to engage in the proposed informal G-2 talks or continuation of the S&ED talks as mentioned previously, beginning with one or two prominent issues of global concern to both. Suggested issues have included climate change and sovereign wealth funds.²¹⁸ The hope being that focusing on select specific issues will lead to consensus on reforms which can then be applied across other areas, enabling discussions on other reforms to the existing system. History shows that the global trading system either trends toward liberalization or sinks under the weight of protectionism and mercantilism.²¹⁹ At present, China appears to be pushing toward the latter; it will require a concerted and persistent effort by the United States to coax it in a more positive direction.

In order to consider other ways in which the United States and China can work together, an examination of potential common interests is worthwhile. Since China’s primary focus has been on its

²¹⁸ Ibid., 12-24. Bergsten’s optimism that the climate change summit in Copenhagen would lead to progress in reforms appeared to be false hope after China more or less scuttled any chances of meaningful agreement by refusing to accept any specific restrictions on its emission levels, etc. Once again, China continues to strongly resist any commitments which would affect its current economic growth, just as it did in rejecting the compromises proposed for the Doha round of talks in 2008 which effectively ended any hope of progress in that multilateral initiative (though the U.S. and EU also refused to compromise on some key issues) . As has been noted previously herein, China’s refusal to adopt a flexible exchange rate policy has been a prime cause of global trade imbalances and represents a considerable challenge to the international monetary order. China’s sovereign wealth fund, the China Investment Corporation, could quickly become the world’s largest, funded as it is by China’s world leading foreign exchange reserves, and have significant impacts on the global economic system.

²¹⁹ Ibid., 15

region, and will remain so for some years to come, the most relevant interests would be those common to Asia. The most important interests of the United States in East Asia would include: stability in the Taiwan Strait and peaceful resolution of the Taiwan issue; the denuclearization and ultimate unification of the Korean peninsula; the preservation of the U.S.-Japan alliance and maintenance of Japan's non-nuclear status; the peaceful resolution of China's maritime disputes with its neighbors and the preservation of commercial navigation in the South China Sea; and the preservation of economic openness in East Asia.²²⁰ For the most part, China shares these same interests and it and the United States are in broad agreement on the goals.²²¹ Though they may differ on how to achieve some of the goals and certainly China does not desire a strong U.S.-Japan alliance, there is considerable common ground and disputes over means to achieve goals are easier to resolve than disputes over goals.²²²

Competition or Threat

Apart from common interests and areas of possible agreement or disagreement, China and the United States will continue to be engaged in some level of competition.

*“Every morning in Africa, a gazelle wakes up.
It knows it must run faster than the fastest lion or it will be killed.
Every morning a lion wakes up.
It knows it must outrun the slowest gazelle or it will starve to death.
It doesn't matter whether you are a lion or a gazelle.
When the sun comes up, you better start running.”*

--African proverb²²³

Should the point of this simple lesson elude the United States, those predicting the decline and demise of America will be proven right. America can ill afford to be complacent at this moment in history. Countries like China and India are hurtling forward into the future, seemingly seized of the

²²⁰ Art, “The United States and the Rise of China,” 273

²²¹ Ibid., 282

²²² Ibid.

²²³ quoted in Thomas L. Friedman, *The world is Flat: A Brief History of the Twenty-first Century* (New York: Farrar, Straus and Giroux, 2005), 137

energy, drive and innovation which propelled America to power. Now is not the time to tread water or merely drift, else the United States will be swamped by the waves from a surging Asia. Being the world's most powerful country does not come with a guarantee or entitlement, and one can never rest when they are on top. The naysayers predicting America's decline are often on target when they mention the problems facing America. The problems are real and they must be addressed; chief among them being the out of control federal deficit and needed financial reforms within the U.S. financial system, as well as the need to re-energize the country and recapture its technological and innovation edge.

Whether or not it is at present, China will be a peer competitor of the United States in the future. To indulge momentarily in sports analogies, America remains the reigning champion, the consensus number one by any standard. What should America's response be to a strong challenge from a rapidly rising China? The United States should embrace the challenge from the challenger and simply strive to outperform China; using it as motivation to become stronger, faster, and better in order to overcome any and all challengers. America was built with an attitude of never shrinking from challenges, but meeting them head-on. Responding to the challenge and striving to outperform has nothing to do with containment or balancing. Nor should a challenge be construed as a threat. The crown of champion does not accrue to the complacent. Remaining the best requires constant effort and drive. In the age of globalization, no nation is better suited and positioned to thrive than the United States, but the United States has to utilize the assets and advantages it possesses.²²⁴

²²⁴ Thomas Friedman has described the attributes most needed to thrive under globalization and which the U.S. possesses as the following: 1) an ideally competitive geographic position allowing the U.S. to easily interact with all three key world markets – Asia, Europe, and the Americas; 2) A diverse, multicultural, multiethnic, multilingual population that has natural connections to all continents, bound together by a single language; 3) diverse, innovative and efficient capital markets which encourage venture capitalism and resulting innovation; 4) honest legal and regulatory environment in which domestic and foreign investors could always count on a reasonably level playing field; 5) accepting of new immigrants enabling siphoning off of best brains in the world; 6) a democratic, flexible federal political system; 7) flexible labor markets which promotes competition; 8) strong rule of law; 9) tolerance of the oddball and a deeply entrepreneurial culture; and 10) free flow of information. Thomas L. Friedman, *The Lexus and the Olive Tree* (NY: Random House, 1999), 368-373

As in any competition, however, it is of critical importance that all sides play by the same set of rules. If, for example, China refuses to play by established international norms and standards in enforcing intellectual property rights, the United States cannot sit idly by and allow that type of competition. By the same token, the United States should refrain from erecting unprovoked trade barriers.²²⁵ It is much more than a competition, of course, and the stakes are enormous. The potential opportunities represented by an economically strong China and continued strong America are boundless, and the potential benefits to the world immense.

China and the United States will always disagree on many things and there will always be conflicts, just as there always are between any major powers. They are unlikely to be, and do not need to be, partners, but given the potential power and influence the two countries will yield in the years to come, it is crucial they be able to work together on those issues of key importance to the world. While their cooperation will not always guarantee success, many of these issues can be addressed most effectively through their collective efforts. Conversely, very few of the most pressing issues will be successfully resolved absent that cooperation, particularly where China and the United States actively oppose each other. The “rise” of Asia does not correlate to the inevitable decline of the United States or the West.²²⁶ Not only can the existing global order accommodate the rise of China and Asia, Asia has offered little new in terms of changes to the system, and in fact it can be argued China is more concerned that the

²²⁵ As noted previously, there remain numerous and continuing trade disputes between the two nations, a detailed discussion of which can be found in Congressional Research Service Report to Congress RL 33536, *China-U.S. Trade Issues*, by Wayne M. Morrison, June 23, 2009. The major trade issues include the trade deficit, health and safety concerns over certain imports from China (particularly food and consumer products), China’s poor regulatory system, China’s currency policy, violation of IPR, textile and apparel products, and Chinese industrial policies used to promote and protect China’s domestic industries. Since it became a member of the WTO in 2001, China has continued to promote the development of several industries (autos, steel, telecommunications, and high-technology products) deemed by the government to be important to China’s future economic development and has implemented policies to promote and protect them, contrary to China’s WTO commitments. SOEs also continue to receive direction and subsidies from the Chinese government in violation of the WTO commitment to make them operate according to market principles. The U.S. has brought eight WTO dispute resolution cases against China, five of which have been resolved or ruled upon. China has brought three against the U.S. The S&ED process is intended to help in creating conditions to prevent or resolve many of these trade disputes.

²²⁶ Ikenberry, “The Rise of China and the Future of the West,” 24

United States will abandon its commitment to the system than it is with pursuing a new set of Asian-focused rules and institutions.²²⁷ Rebalancing the global economy, stemming climate change, and containing the nuclear ambitions of Iran and North Korea are among the most pressing issues facing the world; all require China-U.S. teamwork and are in the interests of both countries. All of the above, of course, flies squarely in the face of traditional realists strategies, but as has been highlighted, the U.S.-China relationship is too complex, dynamic, and important to entrust in rigid adherence to theories.

It was the development of a worldwide system of trade and finance that made Great Britain and the United States rich, and “those riches were what gave them the power to project the military force that ensured the stability of their international systems.”²²⁸ This is a lesson which does not appear to have been lost on China. “What we now call globalization – the growth of an international economic system – is one of the most important historical developments of the last five centuries.”²²⁹ Throughout most of America’s history, the global economic order was centered on Great Britain. America’s dependency upon that order complicated its relationship with Britain and caused continual tension between the dominant power Britain and the rising power America. The United States regularly worried about whether Britain would use its global economic power in ways which would either benefit the United States, or at least not unduly impact it; whether to oppose British power or embrace them as an ally and utilize the relationship to maintain the balance of power in Europe and Western Hemisphere. Concerns of possible war with Britain over clashes of interests were prevalent well into the twentieth century. A fair amount of distrust existed between the two nations over the other’s intentions and goals. As British power declined, concerns shifted to whether Britain could maintain control of the global economic system, and if not, and what the United States should do if, and when, it failed.²³⁰ Despite these constant tensions between the

²²⁷ Ibid.

²²⁸ Walter Russell Mead, *Special Providence: American Foreign Policy and how it Changed the World*, (New York: Routledge, 2002), xvi

²²⁹ Ibid., 80

²³⁰ Ibid.

two powers, the United States and Great Britain developed one of the world's longest, strongest, and most important alliances; one which remains invaluable to this day.

There are important similarities between the development of the U.S.-Great Britain relationship and the current U.S.-China relationship. The United States is the global economic leader and maintainer of the global economic system and China the rising power whose growth remains heavily dependent on that system and the manner in which the United States wields its power within it. The challenges, disputes, levels of distrust, and conflict involved in the U.S.-China relationship differ in most respect from those which existed historically between the United States and Britain, but the latter challenges were also many and complex, yet they were overcome. However, the United States does not share the common cultural heritage with China that it did with Britain. Yet despite the differences and important distinctions, the potential exists for valuable collaboration and collective action among China and the United States in support of the global economic system. It would be unreasonable to expect the two would ever develop the partnership which has existed between the United States and Britain, but the United States and China share many common goals and interests. Together, they can do much more good for each other and the world than either can accomplish alone. It would require changes on the part of both nations. In general, the United States must accept China as a global economic power and treat it as a peer. China, in turn, must act like one and become the responsible stakeholder in the global system required of one who desires to be a global power.

Walter Russell Mead asserts that the American Monroe Doctrine was not only not isolationist, it amounted to the recognition that American security depended on the balance of power in Europe and that the United States would step in to prevent an anti-democratic power from overturning that power balance, just as America did in two world wars, the Cold War, and as it would do in Asia. The Monroe Doctrine lives on in American foreign policy.²³¹ This would seemingly come into considerable conflict with a possible strategy which has been suggested for China: "China may want to shift influence away from the

²³¹ Ibid., 81-82

United States to create its own sphere of influence, a kind of Chinese Monroe Doctrine for Southeast Asia where countries would subordinate their interests to China's, and would think twice about supporting the United States."²³² Perhaps it is not so farfetched if one visualizes a rising China in the place of the America of the 1820s. There is a significant distinction, though, between the dominant power exhibited by the United States in Asia today and that possessed in the Western Hemisphere by Britain or any European power in the 1820s.

The most significant of China's considerable internal problems are long term in character. Chinese leaders are well aware China can never be strong abroad until it is strong at home. Its focus will be on internal development issues for decades to come.²³³ America's policy choices will be instrumental in casting the nature of the future relationship with China and its direction. "If the United States transforms an economic and intellectual competitor focused on its own internal development into an international adversary, it will have committed a strategic blunder of breathtaking and historic proportions."²³⁴

In looking at the U.S-China relationship, the thoughts of esteemed military strategist Carl von Clausewitz provide useful perspective in examining the relative strengths and vulnerabilities of the two nations. "One must keep the dominant characteristics of both belligerents in mind. Out of these characteristics a certain center of gravity develops, the hub of all power and movement, on which everything depends. This is the point against which all our energies should be directed," according to Clausewitz. "The first task...in planning for war is to identify the enemy's center of gravity, and if

²³² Joshua Kurlantzick, "China's Charm Offensive in Southeast Asia," *Current History*, September 2006; John Mearsheimer also argues that China will develop its own version of the Monroe Doctrine, directed at the United States, and just as the United States made it clear that distant powers were not to meddle in the Western hemisphere, China will assert that American interference in Asia is unacceptable. Mearsheimer, *The Tragedy of Great Power Politics*, 401

²³³ Lampton, *The Three Faces of Chinese Power*, 250

²³⁴ Ibid., 254; as noted in a quote from a Professor of Strategy, Singapore (June 2005) on p. 252: "Bad American policy is the most significant driver of where China leads."

possible, trace them back to a single one.”²³⁵ China’s center of gravity is tied to continued economic growth and related domestic stability. It is what provides China global power and influence and is the key for the Chinese Communist Party to maintain control over China’s population of over 1.3 billion. Recognition of the center of gravity is critical, not only as to how the U.S. addresses potential China threats in formulating national security strategy, but in developing America’s foreign policy in general. China has potential far-reaching impacts on U.S. global interests and these types of considerations have to be factored into U.S. foreign policy decisions. As China has no doubt determined, terrorists have demonstrated they know how to apply their tactics (IEDs, suicide bombs, and the Internet) against what they have identified as America’s strategic center of gravity; U.S. political will and resolve.²³⁶ China of course has other possible means to target that political will, not to mention its alleged attempts at influencing U.S. policy through campaign contributions and lobbying during the Clinton administration.²³⁷

The fact that a significant portion of the global population is unable or unwilling to participate in the global economy is perhaps the greatest source of global instability and continues to be one of, if not the key, global security challenges. “What the world confronts is a clash not between civilizations but between a modern, globalizing civilization and pockets of illiberal resistance.”²³⁸ China’s continued economic development and modernization can be invaluable in global stability efforts. The more China and other Asian countries can help open markets and enable those heretofore unable or convince those unwilling to participate in the global economy, the more stable the world will hopefully become.

Besides the potential negative economic consequences to the United States and the rest of the world, an economically weak China could present a number of other instability concerns. An

²³⁵ Clausewitz, *On War*, 595-6

²³⁶ Christopher M. Schnaubelt, “Whither the RMA,” *Parameters* (Autumn 2007), 106

²³⁷ Gertz, *The China Threat: How the People’s Republic Targets America*, 15

²³⁸ “Global Progress Report 2010,” *Current History*, January 2010, p.6

economically weaker China would be at increased risk for internal strife. Social unrest in China could lead China's leaders to exploit nationalist passions and seek more aggressive risks externally generating higher likelihood of conflicts with other nations.²³⁹ In terms of instability, there is perhaps more to fear from a collapsing rather than a rising China.²⁴⁰ "History suggests that a weak and resentful China has been more trouble for its region and the world than a strong one."²⁴¹ "It is in the outside world's best interest that China be effectively governed because if Chinese do not do so, no one else can." "The consequences of failure in China will not remain confined within its borders."²⁴² As Malaysian Prime Minister Abdullah Badawi stated, "Talk of China as a threat presupposes it has a planned agenda. I don't think it has one. If China's economic reforms fail miserably, there will be no need for an agenda; the outflow of people will knock us all down."²⁴³ It bears repeating that perspective is critical in evaluating strategic options, as former President William Clinton said in 1999: "As we focus on the potential challenge that a strong China could present to the U.S. in the future, let us not forget the risk of a weak China, beset by internal conflicts, social dislocation, and criminal activity; becoming a vast zone of instability in Asia."²⁴⁴ Then again, considering the numerous accusations and investigations involving alleged Chinese attempts to "buy" influence within the Clinton administration, it is not always a simple matter to obtain clear perspective.

²³⁹ Zbigniew Brzezinski and John J. Mearsheimer, "Clash of the Titans."

²⁴⁰ Nye, *The Paradox of American Power*, 20

²⁴¹ Lampton, *The Three Faces of Chinese Power*, 272

²⁴² Ibid., 250-251

²⁴³ Kang, *China Rising: Peace, Power, and Order in East Asia*, 77

²⁴⁴ "A Dragon of Many Colours," *The Economist*, October 24, 2009

CONCLUSION

“Our future history will be more determined by our position on the Pacific facing China than by our position on the Atlantic facing Europe.”

--Theodore Roosevelt, 1905

These were prescient words by Theodore Roosevelt, uttered over a hundred years ago when America was the rising power and Great Britain was worrying about losing its supremacy. Now China is becoming increasingly powerful, the relative power of the United States is decreasing, and the significant separation between the two will continue to narrow. It won't happen overnight, but an economically strong China will continue to narrow the gap. So what should the United States do about it? Does an economically strong China threaten its national security interests? As with everything involving the complex relationship with China, there are no clear cut answers. China has the potential to affect United States national security interests in myriad ways. Yes, an economically strong China provides the means for a more formidable Chinese military. But the primary threat to the United States does not derive from military capabilities. It is highly unlikely China would confront the United States directly militarily (with the possible exception of a conflict over Taiwan). China is well aware the United States military is in a league of its own. A more powerful military does increasingly provide China potential capabilities to deny the United States access, but it would be at a point much farther into the future before China would even consider confronting the United States in that manner.

Instead, economic strength provides China power and influence it can exploit in any number of ways. It can certainly affect the United States economically through competitive means, trade restrictions, changing the international system to provide it competitive advantages, and applying pressures through its holdings of United States debt. More importantly, though, economic strength provides China power and influence which it can use as a counter to American power and influence. China's strategic goals are not focused on overcoming or defeating the presence of the United States in Asia, they are all about preventing the United States from being able to interfere in China's internal affairs. The power and influence of the United States which most concerns China is that which could

prevent China from continuing its economic development and which they perceive as interfering in its internal affairs. The fact that China tends to view most actions and policy of the United States through a lens which perceives those actions in Asia as attempts to interfere in China's internal affairs or to contain China's growth, is problematic. On the other hand, China has no illusions of its ability to, nor does it have the desire to, replace the United States as a global power anytime in the foreseeable future. China just wants to ensure the United States is not so powerful that it can interfere in China's affairs as it pleases.²⁴⁵ In other words, the problem or threat the United States faces from an economically strong China is not necessarily evident from its strategic goals, it is in how China perceives and reacts to policies and behaviors of the United States.

An economically strong China could pose some threats to United States national security interests, but does the alternative really present a better scenario? An economically weaker China also carries with it significant threats to United States national security interests. It would undoubtedly lead to instability in China. Instability in a country with twenty percent of the world's population is a dangerous proposition. Instability would likely spread throughout Asia, and it would require considerable attention and resources from the United States to address. America's national security interests are best served by global stability, and an economically strong China, not an economically dominant one, provides the better opportunity for stability.

If an economically strong China is considered favorable for United States interests, how does the United States manage that growth and not be surpassed as the global economic leader at some point in the future, thereby losing the many advantages it derives from that level of influence and control. Containment is not a viable option, nor is outright accommodation. A mix of the two would have to do. It means focusing on the opportunities associated with an economically strong China, and there are many, while picking the right spots to pressure or oppose China, and there will be many of those as well.

²⁴⁵ It should be noted again, though, that China's affairs and interests increasingly cut a wider and wider swath across the globe, thereby increasing the risks China could view actions as interfering in its "affairs."

As former Singaporean Ambassador to the United Nations Kishore Mahbubani has noted, too many Western minds are looking only at the dangers associated with China and Asia's rise; few are looking at opportunities.²⁴⁶ There is indeed tremendous opportunity for the West and the rest of the world in the modernization and economic development of China. America must not close its mind to those opportunities and needs to consider the opportunities in its strategic planning and in the actions it takes. As Samuel Huntington states in his book, *The Clash of Civilizations*, "...the peoples and governments of non-Western civilization no longer remain the objects of history as targets of Western colonization but join the West as movers and shakers of history."²⁴⁷

In 1957 the Soviet Union's launching of the satellite *Sputnik* caused mild panic among the American people and fear that the United States was falling behind. The rise of China presents *Sputnik*-like challenges to Americans' perceptions of themselves and their leadership role in the world.²⁴⁸ The United States needs to rise to this challenge and use it as an opportunity to reform its capacity, just as it did in response to *Sputnik*. It is this type of positive action in response to a strong challenge which has characterized American innovation, technological prowess, and willpower throughout its history. It is why a positive response to China's rise could be a good thing for America.

In sum, a rising China should be portrayed to the American people as a challenge, not a threat. The challenge is that a rising China will overtake the United States as the leader in innovation. That is a competitive challenge as well as a challenge to America's global leadership role. It is not a threat to American survival, but to its status and position in the world. Accordingly, it should be seen as the opportunity it is to make America stronger and not as a threat which needs to be countered.

Though it has experienced occasional stumbles and forays into conflicts that perhaps were ill-advised, overall, America has shown remarkable restraint given its overwhelming military might. It has

²⁴⁶ Kishore Mahbubani, *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East* (New York: Public Affairs, 2008)

²⁴⁷ Quoted in Mahbubani, *The New Asian Hemisphere*, 7

²⁴⁸ Bergsten, *China's Rise: Challenges and Opportunities*, 238-9

used that “military might to guarantee a world order since 1945 that has enabled America and the rest of the world, especially Asia, to grow and prosper.”²⁴⁹ To quote from the late economist and Nobel Laureate Milton Friedman, “The power to do good is also the power to do harm.” The United States with its unmatched power needs to remain mindful of this simple fact, and must not only strive to use its power for the better good, but convince the world of those intentions. To the global community, it requires a message to stick with American leadership, it has worked to the betterment of the greater world since the end of World War II, and other alternatives do not appear feasible nor in the collective world’s best interests. It is a new world and China and Asia will be major players with considerable power and influence, but from America’s perspective, to echo the sentiments of English poet Robert Browning, “Grow old with me. The best is yet to be.”

²⁴⁹ Mahbubani, *The New Asian Hemisphere*, 80-81

Appendix A:

Sustainability of China's economic growth

A key factor in that continued growth is the priority the Chinese government continues to place on its economic growth and modernization. The CCP has prioritized China's national economic development above all else with foreign policy subordinated to domestic concerns, the primary focus being the perceived need for continued strong economic growth to maintain CCP rule.²⁵⁰ It is a given among many, if not most, analysts and other experts that China will eventually overtake the United States as the world's largest economy. Predictions vary, but most expect this to occur sometime in the 2015-2030 time-frame, based upon projected growth rates for the economies of China and the United States.²⁵¹ Many have projected China's GDP to continue to grow at three times the rate of the United States' GDP growth as it has in recent years. As Josef Joffe argues, that would make sense only if GDP is measured using purchasing power parity (PPP), which more than doubles China's GDP because of its extremely depressed price and wage levels (PPP takes into account a country's relative cost of living and inflation rates). Joffe suggests it does not make sense: "Alas, global standing is not measured by the low prices of nontradable goods, such as haircuts, bootlegged software, and government services. Think instead about advanced technology, energy, raw materials, and the cost of higher education in the West. These items are

²⁵⁰ William T. Tow, *Asia-Pacific Strategic Relations: Seeking Convergent Security* (Cambridge, U.K.: Cambridge University Press, 2001), 18; Robert Sutter and Chin-Hao Huang, *China-Southeast Asia Relations: Economic Concerns Begin to Hit Home*, article from *Comparative Connections, a Quarterly E-Journal on East Asian Bilateral Relations*, January 2009, accessed online on 01/09/2010 at http://asianstudies.georgetown.edu/files/qchina_seasia.pdf; Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools* (Washington, D.C.: National Defense University Press, 2006), 2, 24; Robert G. Sutter, *China's Rise in Asia: Promises and Perils* (Maryland: Rowman and Littlefield Publishing, Inc., 2005), 11, 36

²⁵¹ Economist Intelligence Unit data cited in Wayne M. Morrison, *China's Economic Conditions*, Congressional Research Service Report to Congress, December 11, 2009, 7, projects China will overtake the U.S. economy in 2019 based on PPP GDP projections, and that by the year 2030, China's economy will be 18.3 per cent larger than the U.S. economy.

critical for growth and must be procured on the world market.”²⁵² Joffe’s point being there are significant caveats to making linear projections of China’s GDP growth rates. The fact China’s economy is in significant part characterized by low prices and wage rates which increase PPP measures, is not indicative of its long-term growth potential nor does it translate into economic power. As Joffe argues, much of it involves nontradable goods such as haircuts, government services, cheap software which has been pirated or bootlegged, or low wage assembly of items for foreign manufacturers. The actual costs of items which are most necessary for economic growth -- such as energy, raw materials, advanced technology, etc. -- must be purchased on the international market at much higher prices.

At present, despite China’s dramatic economic growth, the economy of the United States remains significantly larger at 3.5 times the size of China’s economy using nominal GDP numbers, and China’s economy a little more than half the size of the United States’ economy using GDP PPP numbers.²⁵³ There exists a considerably greater disparity when per capita GDP is the measure used. Per capita GDP is more reflective of living standards and “in terms of political power, per capita GDP provides a more accurate measure of the sophistication of an economy.”²⁵⁴ China’s nominal per capita GDP is only 7 percent of that of the United States, and its per capita GDP in PPP only 12.9 percent of the United States.²⁵⁵ China’s world ranking of 130th based on per capita GDP suggests it remains one of the world’s poorest countries. In fact, the United States has a nominal GDP which is only slightly less than the economies of its four largest competitors combined—Japan, China, Germany, and France. The point being that China is still a very poor country and has a ways to go to catch the United States economically.

²⁵² Josef Joffe, “The Default Power: The False Prophecy of America’s Decline,” *Foreign Affairs* (September/October 2009), 27.

²⁵³ Morrison, *China’s Economic Conditions*, 7. Economist Intelligence Unit data show the following GDP data for 2008: nominal GDP for U.S., \$14.44 billion, for China, \$4.42 billion; GDP PPP data for U.S., \$14.44 billion, for China, \$8.2 billion.

²⁵⁴ Joseph S. Nye, Jr., *The Paradox of Power: Why the World’s Only Superpower Can’t Go it Alone* (New York: Oxford University Press, Inc., 2002), 20

²⁵⁵ Ibid. U.S. nominal per capita GDP is \$47,496 vs. \$3,325 for China. U.S. per capita in PPP is same vs. \$6,150 for China.

However, that does not diminish the amazing progress China has made in the past 20-30 years in the growth of its economy and in raising the living standards in the country. It is more an indication of the depths from which China began its modernization.

Another factor indicating China's ability to continue its rapid economic growth is its apparent quick recovery from the current global economic crisis. China's economy achieved an impressive GDP growth rate of 8.3 percent in 2009, despite the global recession, and compared to the negative 2.9 percent experienced by the United States. Given China's historical average economic growth rate in the last 20 years and its proven ability to continue impressive growth in the face of a severe global economic crisis, is there any reason to doubt it will continue well into the future? Not surprisingly, the answer is not always as simple as it seems. The complex mix of variables to which linear projections of economic growth trends are subject makes such projections highly problematic. For example, countries in the early stages of economic development, as China has been, are able to "pick the low-hanging fruit" and benefit from imported technologies, but growth rates can slow once as economies reach higher levels of development.²⁵⁶ Conversely, it could be argued that China has progressed beyond that point and is still exhibiting impressive growth. It can also be argued that China remains in the early stages of economic development given the immense size of the population with tremendous upside potential remaining, so there is still plenty of "low hanging fruit" to pick. However, one thing even most experts predicting continued strong economic growth for China agree upon is that it will only occur if China continues to make major reforms to its economy.²⁵⁷

One of the difficulties in convincing China to make such reforms is that its seemingly rapid recovery from the global economic crisis has China's leaders increasingly convinced their economic model—a mix of subsidies, government control of the market, export-led growth, and selective

²⁵⁶ Nye, *The Paradox of Power*, 20

²⁵⁷ Morrison, *China's Economic Conditions*, 20

privatization—is the best model for the future.²⁵⁸ It has been referred to as “state capitalism” due to the prominent role of the state, the basic model of which other rising powers in Asia—South Korea, Taiwan, and Singapore—have also used to develop their economies.²⁵⁹ It has also been described by Chinese officials as “socialist-market economy,” a system in which the government allows free market forces in a number of areas to grow the economy, but the government still plays a significant role in the economic development.²⁶⁰ Examples of the role played by the Chinese government in economic matters includes state-controlled banks in most of the banking sector, large number of State-Owned Enterprises (SOE) in certain sectors which are protected from competition and are generally the only companies allowed to invest overseas, and all land is owned by the state (although government provides individuals and companies rights to lease and transfer property).²⁶¹

However, Chinese leaders have recognized that certain reforms are necessary and that China’s economic development is still in its early stages facing a number of potential problems. In a December 2003 speech in New York, Chinese Premier Wen Jiabao discussed China’s “peaceful approach” stressing China was still a developing country and will remain so for many years to come. He further pointed out China’s low per capita GDP and that China still faces many problems such as unemployment, poverty, and uneven economic development which are enough to keep China more than occupied for the foreseeable future.²⁶² Other significant long-term challenges facing the Chinese economy include an inflexible currency policy, SOEs, the banking system, increasing public unrest, growing inequality, an

²⁵⁸ 2009 Report to Congress of the U.S.-China Economic and Security Review Commission, 111th Congress, First Session, November 2009, Washington, D.C.: U.S. Government Printing Office, 2009, 15

²⁵⁹ *Global Trends 2025: A Transformed World*, National Intelligence Council (Washington, D.C.: U.S. Government Printing Office, 2008), vii

²⁶⁰ Morrison, *China’s Economic Conditions*, 6

²⁶¹ Ibid.

²⁶² Quoted in Sutter, *China’s Rise in Asia*

inadequate social safety net, lack of rule of law, a poor government regulatory environment, growing pollution, inadequate infrastructure, water shortages and quality, and widespread corruption.²⁶³

Chinese economic growth has become increasingly dependent on increases in investment and net exports. Government officials have recognized the need to expand domestic consumption in order to rebalance China's economic growth, but scant progress has been made in that regard other than in a few areas like automobile purchases (China has become the world's largest automobile market). Household consumption in China accounts for slightly more than a third of total economic output, the lowest of any country in the world, and as a share of GDP fell sharply from 2000-2007, though it has increased slightly since 2007.²⁶⁴ Meanwhile, the United States and China are on opposite ends of the world's largest trade and financial imbalance, with the United States as the largest deficit and debtor country while China is the largest surplus country and holder of dollar reserves.²⁶⁵ The concern is that if China continues to pump up its export sector at the expense of domestic consumption and to direct investment into strategic industries already at overcapacity, it will cause serious problems for its trading partners and the global economy.²⁶⁶ That in turn, would eventually have similar negative consequences for China's economy.

China, in effect, funds U.S. consumption by loaning the U.S. money (through its massive purchases of U.S. Treasury obligations) which enables American consumers to buy Chinese products. China manipulates its currency, the renminbi (RMB), to keep it pegged below that of the dollar which

²⁶³ Saunders, *China's Global Activism*, 3. Nye, *The Paradox of American Power*, 20; Morrison, *China's Economic Conditions*, 20-21; Sutter, *China's Rise in Asia*, 51-53; *The Rich Scent of Freedom*, from The Economist, "A Special Report on China and America," October 24, 2009; C. Fred Bergsten, Charles Freeman, Nicholas R. Lardy, Derek J. Mitchell, *China's Rise: Challenges and Opportunities*, (Washington, D.C.: Peterson Institute for International Economics, 2008), 236

²⁶⁴ Bergsten, *China's Rise: Challenges and Opportunities*, 109; *China's Rise: Challenges and Opportunities*, China Balance Sheet/Issue Briefs 2009; National Bureau of Statistics of China, *China Statistical Yearbook 2007*, 75

²⁶⁵ C. Fred Bergsten, Testimony before the Subcommittee on Asia, the Pacific, and the Global Environment, Committee on Foreign Affairs, U.S. House of Representatives, September 10, 2009, accessed online on January 17, 2010 at www.petersoninstitute.org/publications/papers.cfm

²⁶⁶ 2009 Report to Congress of the U.S.-China Economic and Security Review Commission, 16-17

makes Chinese exports cheaper and imports more expensive in comparison. It further provides China the economic advantage of encouraging foreign direct investment into China.²⁶⁷ China accumulates the money from those sales of its exports to make more loans and to produce more goods for American consumers to buy from China.²⁶⁸ China continues to buy dollars because its policy of strictly controlling the value of the RMB depends upon it, requiring China to swap the dollars flowing into the country for RMB.²⁶⁹ This cycle perpetuates and continues to expand the trade imbalance between the two countries. Resolving the imbalances will require American consumers to increase personal savings rates and reduce consumption, and at the same time require Chinese consumers to increase consumption and reduce personal savings rates. On the Chinese side, this requires government investment in areas such as building institutions and capabilities to enhance its social safety net.²⁷⁰ Absent those kinds of assurances, most Chinese will continue to save for unexpected expenses.²⁷¹ Instead, China continues to direct its investments toward increasing exports, mostly to enhance employment. Social stability remains the

²⁶⁷2009 Report to Congress of the U.S.-China Economic and Security Review Commission, 21. By keeping the value of the RMB artificially low, China provides an incentive to foreign corporations to shift production there, because it reduces the price of investing in China and makes their exports from China cheaper; and see U.S.-China Economic and Security Review Commission, *Hearing on China's Role in the Origins of and Response to the Global Recession*, written testimony of Robert B. Cassidy, February 17, 2009; in which Cassidy explained "in effect, China is subsidizing its exports, subsidizing foreign investment, and taxing China's imports."

²⁶⁸ Kenneth Lieberthal, *The China-U.S. Relationship Goes Global*, Current History, September 2009, vol. 108, No. 719, 247

²⁶⁹2009 Report to Congress of the U.S.-China Economic and Security Review Commission, 21; for further elaboration on why China's vast foreign reserves reflects an economic model too reliant on exports is the following argument from David Pilling, "Washington Risks Taking China Too Seriously," *Financial Times*, July 29, 2009: "*The enormous trade surplus is the product of an undervalued [RMB] that has allowed others to consume Chinese goods at the expense of the Chinese people themselves. Beijing cannot dream of selling down its Treasury holdings without triggering the very dollar collapse it purports to dread. Nor are its shrill calls for the U.S. to close its twin deficits—which would inevitably involve buying fewer Chinese goods—entirely convincing. Rather than exposing the superiority of China's state-led model, the global financial crisis has laid bare the compromising embrace in which the U.S. and China find themselves.*"

²⁷⁰ Bergsten, *China's Rise: Challenges and Opportunities*, 29. possible ways to increasing American savings rates would include reducing the federal deficit, perhaps through reductions in entitlement programs, or increasing household savings from a cooling in the housing market, which has been occurring since the global economic crisis hit (in large part due to the bursting of what had been a booming real estate market fueled by high consumption expenditures).

²⁷¹ Lieberthal, *The China-U.S. Relationship Goes Global*, 247

primary concern of Chinese officials in order to retain their rule, and bolstering employment is considered crucial to social stability. The Chinese government maintains that an economic growth rate of at least 8 percent is necessary to avoid massive unemployment.²⁷²

China's economy is heavily dependent upon exports, which account for approximately 40 percent of its GDP. Such reliance upon exports potentially makes the Chinese economy highly vulnerable to economic downturns as foreign demand for Chinese products falls.²⁷³ As the world continues to feel the effects of the global economic crisis which began in September 2008 and demand in trade-deficit countries like the United States inevitable declines, China's export-driven economy is likely to suffer some ill effects. China's GDP growth remained strong through 2009, and there are a number of possible explanations for that seemingly resilient growth. To better understand how China's economic development may ultimately be impacted by the crisis, it is helpful to look at the probable causes of the crisis.

From China's perspective, the crisis was precipitated by the U.S. model of free market capitalism, American consumer overconsumption and borrowing combined with low savings rates, and its lack of effective regulatory oversight.²⁷⁴ Certainly, the United States has to share in the blame for this crisis and as the leading global economy it rightfully has borne the brunt of criticism and blame. As is to be expected in the convoluted world of global economics, there is always more to the story. Among the key factors contributing to the crisis were the collapse of real estate values, lax regulation of financial services (as was the case in the U.S.), historically low interest rates managed by central banks, and speculation in commodities and fixed assets. Another key factor was the global saving and spending imbalances, primarily the role of the unbalanced trade relationship between the United States and China.²⁷⁵

²⁷² Richard McGregor and Daniel Dombey, "Beijing in Uneasy Embrace of the Greenback," *Financial Times*, July 26, 2009

²⁷³ Joffe, *The Default Power: The False Prophecy of America's Decline*, 28

²⁷⁴ 2009 Report to Congress of the U.S.-China Economic and Security Review Commission, 47

²⁷⁵ *Ibid.*, 38

In 2007, Chinese Premier Wen Jiabao warned that the Chinese economy was “unstable, unbalanced, uncoordinated, and unsustainable.”²⁷⁶ Consistent with that statement, the 11th Five-year Plan stressed the need for China to transform from an export-to-consumer-led growth.²⁷⁷ That proposed reform, however, was subordinated to a policy focused on stimulating the economy and maintaining a growth rate of around 8 percent. In November 2008, the Chinese government implemented a stimulus plan in response to the global economic crisis which purported to increase domestic demand and stimulate economic growth by investing 4 trillion RMB (\$586 billion) in 10 major areas. Though the stimulus plan contained some consumption boosting measures, the overwhelming emphasis was on infrastructure projects and export promotion policies.²⁷⁸ It reflects Beijing’s strategy of boosting production rather than increasing domestic net consumption, and could actually undermine its ability to sustain long-term growth when export-led opportunities diminish.²⁷⁹ The plan directed China’s state-owned banks to loosen credit (with over \$1.3 trillion loaned out in the first nine-months of 2009). The concern expressed by many economists is that this lending creates more financial imbalances and increases strains on bank balance sheets. Meanwhile, China continues to add manufacturing capacity, producing more than it can consume domestically. The record lending poses risks of creating “bubbles” in the property and stock markets and increasing nonperforming bank loans.²⁸⁰

²⁷⁶ U.S.-China Economic and Security Review Commission, *Hearing on China’s Role in the Origins of and Response to the Global Recession*, written testimony of Stephen S. Roach, February 17, 2009.

²⁷⁷ 2009 Report to Congress of the U.S.-China Economic and Security Review Commission, 48. China’s industrial policy is promulgated through a process outlined in 11 successive Five-Year Plans which the State Council adopts and local government entities implement at the direction of the CCP.

²⁷⁸ Bergsten, *China’s Rise: Challenges and Opportunities*, 237

²⁷⁹ Ashley J. Tellis, “The Global Economic Crisis and U.S. Power,” *Strategic Asia 2009-10*

²⁸⁰ *Ibid.*, 39; and see similar opinions of economist Xu Xiaonian that China’s growth is not sustainable, overcapacity is already a problem and the government is extending too much credit, quoted in Geoff Dyer, “China Special Report: Early Arrival at New World Party,” *Financial Times*, October 1, 2009; and Geoff Dyer, “Dynamic Recovery May not be Sustainable,” *Financial Times*, October 1, 2009; for a more detailed analysis of potential trouble for China economically as result of lingering debt from 1997 Asian financial crisis, see article by Jamil Anderlini, “Old

In a recent *Forbes* magazine article, Gady Epstein described the stimulus lending as a giant Ponzi scheme and compared China today to Japan shortly before Japan's stock and property markets melted down in the 1980s.²⁸¹ Also of concern to Epstein are the manner in which China's government bureaucracies fund themselves by sticking state-owned enterprises (SOEs) with debt; local governments raise capital by selling land at inflated prices to corporations they own; and the approximate \$1.5 trillion in off-balance sheet debt owed by cities and provinces, and entities they control, that the People's Bank of China and Chinese treasury are on the hook for. When the \$1 trillion in loans policy banks were required to issue and nonperforming loans that the government removed from the books of state-owned commercial banks over the past decade is factored in, the Chinese government is responsible for debt equal to over 70 percent of 2009 GDP (The excessive U.S. government's \$7.2 trillion in debt at end of June represented 50 percent of GDP).²⁸²

Other critics of China's stimulus plan have been less impressed with China's strong GDP growth in 2009, arguing that any economy would show short-term growth from such a massive infusion of money, that the growth should have been even stronger based on the size of the stimulus, or that Chinese economic data tends to be unreliable and often inflated to meet stated CCP goals and the reported GDP

Troubles Still to be Resolved," *Financial Times*, October 1, 2009. China's financial system nearly collapsed in the 1997 crisis as result of decades of government directed lending to unprofitable SOEs and well over a third of the loans were not being repaid. The government transferred the equivalent of \$400 billion of nonperforming loans from largest banks to newly established asset management companies. This allowed the banks to book the bad loans as interest bearing assets on their balance sheets. Few payments on any of these bad loans have been made since nor are payments likely to be made. Adding the strain of new nonperforming loans from the current stimulus plan efforts may lead to another financial crisis.

²⁸¹ Gady Epstein, "Ponzi in Peking," *Forbes*, December 28, 2009, 72; Andy Xie, an economist specializing in Southeast Asia economies has also referred to Chinese asset markets as a "giant Ponzi scheme," a big bubble that is about to burst, see Andy Xie, "Dark Side of the Lending Boom," *China International Business*, August 3, 2009, accessed online on December 15, 2009 at http://www.Cibmagazine.com.cn/columnists/andy_xie.asp?id=1031&dark_side_of_the_lending_boom.html

²⁸² Epstein, "Ponzi in Peking," *Forbes*, December 28, 2009, 72

numbers are inconsistent with other data.²⁸³ China may experience difficulties maintaining similar levels in 2010 absent the stimulus influx of 2009 and with global consumer demand, particularly in the U.S., likely to be stagnant or declining. Michael Pettis, a professor of finance at Peking University, has provided some thought-provoking analysis regarding global balance of payments. He predicted in 2008 the global economic crisis would first impact trade-deficit countries such as the U.S., and then in the second stage, would move to trade-surplus countries, most of which are in the developing world. The credit crisis has for the most part eliminated their debt-fueled consumption binge, and this reduction must come with a corresponding adjustment.²⁸⁴

Pettis described three ways the system can adjust: one is for trade –deficit countries to borrow and spend aggressively to replace shrinking household consumption. The second is for trade-surplus countries to create sharp increases in their domestic consumption that would match the decline in U.S. household consumption. He cites the problem with this solution being that the scale of the adjustment is beyond the capacity of most countries. For example, a decline in U.S. consumption equal to 5 percent of U.S. GDP would require an increase in Chinese consumption equal to 17 percent of Chinese GDP, roughly a 40 percent growth in consumption. That is unlikely. The third solution, then, involves a sharp decline in global production. The burden would fall on trade-surplus countries such as China and its Asian neighbors. The corresponding economic impacts would be harsh to include massive unemployment and shutting down of factories. It is likely countries such as China would resort to enactment of trade –related measures such as export subsidies, subsidized financing, currency

²⁸³ Gordon Chang, “China’s 8.9% Growth? No Way,” *New Asia (Forbes)*, October 23, 2009. It should be noted, however, that Chang has been predicting the collapse of China by 2011 since the release of his 2001 book, *The Coming Collapse of China*. Chang’s premise being basically that as China continues to develop economically and modernize, it will become increasingly unstable and the people will revolt against the communist government; and see comments from contrarian hedge fund investor James Chanos, quoted in David Barboza, “Contrarian Investor Sees Economic Crash in China,” *International Herald-Tribune*, January 8, 2010. Chanos argues China’s economy is hyperstimulated and full of bubbles about to burst in its surging real estate sector due to credit excesses, from excess capacity, that the stimulus package is creating artificial demand and raising risk of wave of nonperforming loans, and that China is “cooking” its books and faking, among other things, its growth rates.

²⁸⁴ Michael Pettis, “Asia Faces Tough 2009 as Output Decreases,” *Financial Times*, Op-Ed, December 15, 2008

depreciation, and import tariffs in an effort to force the overcapacity adjustment onto their trading partners. This was the same strategy utilized by the United States in adjusting to the 1929-31 crisis when it was in China's position as the country with overcapacity problems. In enacting trade tariffs such as the Smoot-Hawley bill of 1930, the U.S. forced contraction in production onto the rest of the world, and international trade basically collapsed. The internal adjustments then made by the U.S. in collapsing production led to the Great Depression. Pettis sees a risk that the same thing could happen in response to the current economic crisis.²⁸⁵

Of possible hope in Chinese domestic consumption levels increasing is the fact that China is just beginning to discover consumerism. The proportion of urban households belonging to the middle class will rise from 13 percent in 2005 to 50 percent by 2015 according to McKinsey and Company estimates.²⁸⁶ Considering the vast numbers associated with China's urban areas, this represents tremendous potential for increasing domestic consumption, so long as the Chinese government makes appropriate reforms and policy decisions to complement this potential. However, it does not take into account the vast populations in China's rural areas who are mired in among the world's worst poverty levels.

Whereas many skeptics believe China's economy is built on a shaky foundation, other experts are of a different opinion. Where pessimists see overvalued asset prices, overinvestment, excessive lending, and ominous similarities to Japan's bubble burst in the late 1980s, others believe China's economy is more robust with important distinctions from that of 1980s Japan. They argue property values are not at the inflated levels Japan experienced; Chinese homes carry much less debt than Japanese properties did (Chinese household total debt is at 35 percent of their disposable income versus 130 percent in Japan in 1990); the property boom is being financed primarily by saving rather than bank lending; that even though China does have excess capacity in some industries, concerns about overinvestment tend to be

²⁸⁵ Pettis, "Asia Faces Tough 2009 as Output Decreases"

²⁸⁶ "The Chinese Checkbook," *Forbes*, November 16, 2009

exaggerated; that the huge stimulus investment in 2009 was driven mainly by infrastructure investment, not manufacturing; that even though bank lending has perhaps been excessive and needs to be addressed, it is still well below the average debt-to-GDP ratio in developed countries (50 percent in China versus 90 percent); and that China is still a poor, developing country which has much more potential room for growth than did Japan.²⁸⁷ Even those of this more optimistic view of China's continued economic growth potential, however, recognize China's potential will only be realized if its leaders make the right decisions, avoid the wrong ones, and implement necessary reforms.

Chinese officials have apparently given some credence to concerns voiced by economists and other experts over the soaring bank lending and potential asset bubbles. On 12 January 2010, the government ordered banks to set aside more reserves and its central bank raised interest rates on one-year bills. This followed news that inflation edged higher and bank lending rates had soared the first week of January. Housing prices in Shanghai and Beijing had more than doubled in the past three years. The government hoped reducing the stimulus in this manner would slow the economy and alleviate these risks.

Further feeding the above challenges to China's economic development are a plethora of additional issues. State-owned enterprises (SOEs) continue to be a burden on China's economy. They are heavily subsidized by state-owned banks and over half lose money due to their inefficient nature and inability to compete.²⁸⁸ The banking system in China, largely consisting of state-owned banks, is tightly controlled by the central government. The government uses the banking system to subsidize and keep afloat money-losing SOEs by forcing banks to provide them low-interest loans, with perhaps 50 percent of bank loans going to SOEs. Most of which are unlikely to be repaid. Corruption is also a problem since loans are often made based upon political connections.²⁸⁹ One likely reason for China's reluctance to do

²⁸⁷ "Briefing China's Economy: Not Just Another Fake," *The Economist*, January 16-22, 2010, 68-9

²⁸⁸ Morrison, *China's Economic Conditions*, 21

²⁸⁹ Ibid.

away with SOEs is the need to utilize them to keep people employed, despite the inefficiencies associated with high employment in such operations. Once again, the social stability concern and its potential impact on CCP control takes priority over all else.

China suffers from a poor government regulatory environment in which laws and regulations often go unenforced or are ignored by local government officials.²⁹⁰ The central government's emphasis on economic development and pressure on local governments to meet stated economic growth goals ("Growth at any cost") result in the cutting of corners in order to maximize profits.²⁹¹ This has frequently led to unsafe consumer products and food being sold in China and abroad. Examples include the unsafe levels of lead found in Chinese toys exported to the United States which resulted in a ban on such toys. A continuing inability to adequately ensure the safety of food and consumer products will further erode confidence in Chinese products and affect global demand.

China remains far from establishing the semblance of effective rule of law. China's courts and judges are answerable to the National People's Congress leaving them scant authority or ability to protect the rights and interest of citizens or to enforce government and private companies compliance with the law.²⁹² The lack of effective rule of law allows rampant government corruption, financial speculation, and misallocation of investment funds. It promotes an environment in which government connections and not market forces determine the ability to compete.²⁹³ The inconsistent application and enforcement of rules and regulations, difficulties in enforcing contracts, Chinese government protection and preferential treatment of Chinese companies over foreign companies, and lack of protection for

²⁹⁰ Ibid.

²⁹¹ Saunders, *China's Global Activism*, 26; Bergsten, *China's Rise: Challenges and Opportunities*, 78

²⁹² Kishore Mahbubani, *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East* (New York: Public Affairs, 2008), 88. Mahbubani points out that China's court system is far from an independent entity that can curb government power and is subject to considerable political pressure. However, he argues China has made astounding progress in implementing rule of law, and that the push to do so has been driven purely by economic imperatives.

²⁹³ Morrison, *China's Economic Condition*, 22

intellectual property rights are issues of significant concern to foreign businesses desiring to do business in China.²⁹⁴ According to Harvard economist Dwight Perkins, “Much of the early success of market reforms...resulted from the basic simplicity of the task.” The process of creating a rule of law and adequate institutions in the economic area will be “measured in decades, not years or months.”²⁹⁵ Failure to adequately and timely address these shortfalls will impact China’s competitiveness in the global economy.²⁹⁶

While the central government has taken some steps in attempting to address some of these issues, its ability to affect issues at the local level is somewhat limited due its lack of meaningful oversight over the vast number of local and provincial government officials.²⁹⁷ The most prevalent corruption problems are at the local level where local officials tend to do pretty much as they please. Some observers suggest that “the Chinese state is degenerating into a maze of local ‘mafia states’ as corrupt local officials form alliances with criminal networks and use public authority for private plunder.”²⁹⁸ It has been estimated that corruption costs to China could be as high as 3-4 percent of annual GDP, with corruption related

²⁹⁴ China is considered by the U.S. government and private organizations to be the world’s largest source of Intellectual Property Rights thefts; 2009 Report to Congress of the U.S.-China Economic and Security Review Commission, 16; “Impenetrable: Selling Foreign Goods in China,” *The Economist*, October 15, 2009

²⁹⁵ Quoted in Nye, *The Paradox of American Power*, 20

²⁹⁶ A situation which exemplified the lack of genuine rule of law in China and the difficulties in distinguishing between the interests of the state and large Chinese companies was the arrests by China in July 2009 of four executives from Australian mining giant Rio Tinto. Rio Tinto had been involved in negotiations with Chinese steel mills about iron ore prices and had recently rejected a \$19.5 billion investment in the company by Chinese aluminum maker Chinalco. The executives were originally accused of stealing state secrets, though charges were later reduced to bribery and theft of commercial secrets. The clear implication was that China used national security threats to influence commercial negotiations. The lack of transparency and perception of arbitrariness evidence the fact China “faces formidable challenges on its path to becoming a legitimate superpower.” Geoff Dyer, “Early Arrival at New World Party,” *Financial Times*, October 1, 2009

²⁹⁷ Bergsten, *China’s Rise: Challenges and Opportunities*, 75

²⁹⁸ Minxin Pei, *China’s Trapped Transition: The Limits of Developmental Autocracy*, (Cambridge, MA: Harvard University Press, 2006)

capital flight costing an additional 2 percent of GDP.²⁹⁹ Of perhaps more concern to the Chinese government, public anger over official corruption is a significant factor in the increasing social unrest in China.³⁰⁰

The high degree of sensitivity of the CCP to issues involving social unrest cannot be overemphasized. As stressed throughout this analysis, it is an issue which bears directly upon the CCP's ability to retain control. The government acknowledged that there were over 87,000 protests in 2005 compared to 53,000 in 2003.³⁰¹ The China Labor Bulletin and other publications reported 127,000 "mass incidents" in China in 2008.³⁰² Most of the protests centered on such issues as pollution, government corruption, and land seizures.³⁰³ There is considerable frustration on the part of extremely poor rural residents that they are receiving no benefits from China's economic reforms and growth. A 2005 United Nations report stated that "the income gap between the urban and rural areas was among the highest in the world and warned that this gap threatens social stability."³⁰⁴ While the incidents of unrest are of concern to Chinese leaders, they do not appear to threaten stability of the regime in the near to medium term.³⁰⁵ The protests tend to be focused on local officials and not on the central government, and often the protesters are looking to the central government to resolve the issue. Some experts believe the current

²⁹⁹ Yan Sun, "Corruption, Growth, and Reform: The Chinese Enigma," *Current History*, vol. 104, no. 683 (September 2005), 257

³⁰⁰ Bergsten, *China's Rise: Challenges and Opportunities*, 96

³⁰¹ Morrison, *China's Economic Condition*, 21

³⁰² Gordon G. Chang, "The Beijing Consensus Won't Last," *Wall Street Journal Asia*, November 8, 2009

³⁰³ Morrison, *China's Economic Condition*, 21

³⁰⁴ *Ibid.*; According to a prominent Chinese economist the growing income gap, and the rise of a new class of wealthy officials and entrepreneurs, has stirred resentment among the poor which could lead to "all types of social instability." Josephine Ma, "Wealth Gap Fueling Instability," *South China Morning Post*, December 22, 2005.

³⁰⁵ Bergsten, *China's Rise: Challenges and Opportunities*, 68

regime is more stable and enjoys greater support now than at any time since the economic reforms began.³⁰⁶

Regardless of the severity of the immediate potential threat, factors which affect social stability will continue to occupy Chinese leaders and impact the government's policy regarding future economic development. After all, a population of 1.3 billion is a massive burden on its government for its social development and to keep it fed, clothed, and sheltered. The Chinese government may be faced with the dilemma of choosing between social services or export development.³⁰⁷ Choosing to remain focused on export development will enhance prospects for a growing economy and higher employment. Shifting resources from export development into social services and support will necessarily lead to falling exports and export growth. In the opinion of Josef Joffe, sooner or later China's population will demand to be fed or freed.³⁰⁸

Nor will China's harsh crackdowns on any form of dissent, stifling of opinion and control of media, and censorship of the Internet provide it any competitive advantage in obtaining or retaining the best and brightest. As a developing economy, China remains in dire need of the technological and scientific expertise which helps drive innovation, effectiveness and efficiencies in a country's economic development. Many of China's best and brightest are educated in American universities. Though higher percentages of these graduates return to China now than in previous years as employment opportunities there have improved, incentives to return to China may ultimately diminish in proportion to the level of intellectual freedom and true professional development potential they anticipate will be available to them there.

Simple demographics offer another possible disincentive for some to return to or remain in China. China's population is aging, which has the potential to create burdensome demands on Chinese

³⁰⁶ Andrew G. Walder, "Unruly Stability: Why China's Regime has Staying Power," *Current History*, September 2009

³⁰⁷ Joffe, "The Default Power," 28

³⁰⁸ Joffe, "The Default Power," 28

institutions and the ability to build system capacity as well as the potential debilitating effects on workforce productivity.³⁰⁹ Of at least equal concern is that China's National Population Development group predicts that by 2020 there will be thirty million more men than women aged twenty to forty-five.³¹⁰ These demographic factors could have damaging social and economic consequences. "It is hard to imagine a more destabilizing phenomenon than large cohorts of mostly rural, poor males without marriage prospects."³¹¹

China is also faced with serious environmental challenges. It is considered one of the most polluted countries in the world with 20 of the 30 world's most polluted cities, and is the largest source of carbon dioxide emissions (the U.S. is the second largest source of carbon dioxide emissions). The pollution, which is a direct result of China's aggressive economic development, claims more than 750,000 lives each year and costs China tens of billions of dollars. Various studies estimate pollution costs the Chinese economy 7-10 percent of GDP each year.³¹² The Chinese government has consistently disregarded its own fairly lax environmental laws in deference to the higher priority of economic growth.³¹³ Unless adequately addressed, ever increasing pollution levels will continue to have severe negative impacts on health and economic growth.

³⁰⁹ David M. Lampton, *The Three Faces of Chinese Power: Might, Money, and Minds*, (Berkeley, CA: University of California Press, 2008), 218. It is estimated there will 173.8 million persons over the age of 65 in China by 2025 (60 percent of the current entire U.S. population). By 2040, 28 percent of the Chinese population will be over the age of 60, versus 25 percent for the U.S. The median age in the U.S. will be the lowest of any of the world's large powers, except India, and the U.S. working-age population will have grown by about 30 percent by 2050, while China's will have dropped by 3 percent. Another key difference is the U.S. has an established and functioning social security system. China is far from developing adequate social service institutions.

³¹⁰ Ibid.. The imbalances have resulted from the one-child policy implemented in the 1970s under Mao and the Chinese bias toward male offspring which often results in sex-selective abortions.

³¹¹ Ibid., 219

³¹² U.S. Department of State, Bureau of East Asian and Pacific Affairs, 13

³¹³ Morrison, *China's Economic Conditions*, 22

Related at least in part to China's pollution problems are looming water shortages and water quality problems. According to World Bank forecasts, China has only a per capita share of 2700 cubic meters per annum, one-quarter of the world's average. Half of China's 617 largest cities, including Beijing, face water deficits. Thirty of the thirty-two largest cities face water shortages to some degree.³¹⁴ Severe pollution is making water in many parts of China unsafe for human use or even for use in factories. Ninety percent of cities' groundwater and seventy-five percent of rivers and lakes are considered polluted. An estimated 700 million people in China drink contaminated water every day. China has twenty percent of the world's population, but only seven percent of global water resources. In addition, approximately 1400 square miles of grassland and farmland in China are overtaken by the Gobi Desert every year. Not surprisingly, China further suffers from ineffective water policies and weak institutional capacity. Chinese Premier Wen Jiabao warned in March 2007 that if arable land were to fall under 1,206,000 square kilometers, China would not be able to feed itself. Current arable land stands at 1,226,000 square kilometers. Thus, a loss of just 20,000 square kilometers, or roughly 1.6 percent, would push the country over the negative threshold.³¹⁵ Failure to satisfy a society's fundamental needs is yet another recipe for unrest and instability, and this is yet another issue which will require significant attention from the government in years to come.

While China remains an export powerhouse, 60 percent of its exports are produced by foreign invested firms. Many of these exports are merely assembled in China from imported components by foreign-owned companies, and the percentage of value-added in China is often quite low.³¹⁶ The Chinese government continues efforts to develop more indigenous capability to manufacture higher-technology type products and transition away from high-volume, low value assembly-type operations, but it takes

³¹⁴ World Bank, World Development Indicators Database, September 2009, accessed online on January 15, 2010, at <http://web/wbsite/external/countries/eastasiapacific/exteapreetopenvironment>; Zmarak Shalizi, *Addressing China's Growing Water Shortages and Associated Social and Environmental Consequences* (Washington, D.C.:World Bank, 2006)

³¹⁵ See <http://asianews.it/view4print.php?1=en&art=9015>. Accessed online January 23, 2010

³¹⁶ Saunders, *China's Global Activism*, 29

time to develop the necessary capabilities and infrastructure to achieve this. It will take time before China can compete globally with the United States and other developed economies at these levels.³¹⁷

Other experts are convinced China's economic growth is not limited to or by export markets and will sustain high single-digit growth rates for decades; overcoming potential stumbling blocks such as economic instability, pollution, inequality, corruption, and slow pace of political reform. Based on such assumptions, China's economic size will equal America's by 2035 and double it by midcentury.³¹⁸ Trade data for December 2009 which reflected a surprisingly strong increase in China imports (imports up 56 percent for 2009) and domestic consumption would in part support this position.³¹⁹

China considers its economy to be market-oriented, but the central government continues to provide the comprehensive economic planning, direction, support, and control.³²⁰ This highlights the existing dichotomy between China's one-party authoritarian rule and need for a true market-oriented economy. There is little congruence and much conflict between the two, the propensity of which is to create tensions which will only intensify as economic development drives forward with China's hopes to remain competitive in the global economy. The more interaction with the world, the more the tensions inherent in the existing system will be felt. It is difficult to imagine that China can remain highly competitive long-term with such a heavy preponderance of SOEs, which are wholly inconsistent with a market-oriented economy. As a final comment on market-oriented free economies, the Heritage Foundation and Wall Street Journal rank the world's economies annually in terms of economic freedom with the most recent ranking of China being 140th in the world (the U.S. was ranked sixth, Hong Kong

³¹⁷ George J. Gilboy, "The Myth Behind China's Miracle," *Foreign Affairs* 83, no. 4 (July/August 2004), 33-48

³¹⁸ Albert Keidel, "China's Economic Rise-Fact and Fiction," Carnegie Endowment for International Peace, Policy Brief 61, 2008, accessed online on January 24, 2010, at www.carnegieendowment.org/files/pb61_keidel_final.pdf

³¹⁹ "China's Battered Image: Bears in a China Shop," *The Economist*, January 16-22, 2010, p. 15

³²⁰ 2009 Report to Congress of the U.S.-China Economic and Security Review Commission, 56-57. The Chinese government directs industrial policy in a number of ways: by promoting certain segments of the economy over others; providing subsidies to companies in order to accomplish objectives set forth in the CCP's Five-year Plans; and by designating certain industries to remain government owned and others to remain government controlled.

held the top ranking).³²¹ Under Mao's totalitarian rule from 1949-1976, the CCP dominated not only the country's political life, but also the intellectual, artistic, economic, and personal lives of all. Since Mao's death and the transformation from a totalitarian regime to an authoritarian one the CCP still dominates the political system, but the government's economic reforms and the loosening of controls over nonpolitical activities has allowed at least some degree of freedom into people's lives. Tremendous progress to be sure and the trend appears positive, but as evidenced by the CCP's heavy censorship of the Internet and its literal crushing of dissent in the country, there is still a long road ahead.

³²¹ Terry Miller and Kim R. Holmes, *2010 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones Company, Inc., 2010), accessed online at <http://www.heritage.org/index> on January 19, 2010. The ten factors used to rank country economies were: business freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, and labor freedom.

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